

The Incorporated Accountants' Journal

The Official Organ of
The Society of Incorporated Accountants and Auditors

THE INCORPORATED ACCOUNTANTS' JOURNAL is published monthly, on the first day of each month, at an Annual Subscription of 12s. 6d., which includes postage to all parts of the world. The price of a single copy is 1s. 3d., postage extra.

Communications respecting the general business of the paper to be addressed to the Secretary of the Society of Incorporated Accountants and

Auditors, Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2. Cheques and postal orders should be made payable to the Society, and crossed "Bank of England."

Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Vol. XLVIII

DECEMBER, 1936

No. 3

Contents.

	PAGE
Professional Notes	73
Interpretation of Gold Clause (Article)	75
Piece Work and Overtime (Article)	76
Misuse of the Designation "Incorporated Accountant"	78
Society of Incorporated Accountants and Auditors:—	
Council Meeting	78
Membership	88
Incorporated Accountants' Lodge	78
The Incorporated Accountants' Benevolent Fund:—	
Annual Meeting	79
Some Practical Points on Auditing: Lecture by Mr. Walter Holman, F.S.A.A.	84
Forthcoming Events	88
Society of Incorporated Accountants in Ireland: Annual Dinner	89
"The Statist" and Gold Bloc Devaluation	92
Sir Josiah Stamp on Controlling Factors in the Economic Outlook	92
Municipal Elections	94
Alleged Negligence by Accountants: <i>Leech v. Stokes Bros. & Pim</i>	95
Income Tax Law Codification	103
A Case of Fiduciary Position	104
The Professional Man and the "Distribution of Leisure" Problem: Lecture by Mr. Collin Brooks	105
Incorporated Accountants' District Society of Devon and Cornwall: Annual Dinner	112
The Accounting Research Association	113
Action for Professional Charges	114
The Chartered Accountants' Students' Society of Edinburgh	114
Retirement of Judge Shewell Cooper	115
Reviews	115
Changes and Removals	115
District Societies of Incorporated Accountants	116
Scottish Notes	117
Legal Notes	118

to the balance sheet as part of the year's surplus. The object is to disclose more clearly the limits of income available for grants under Rule 17 and indicate more readily the financial needs of the Fund.

The President of the Fund, Mr. C. Hewetson Nelson, in his address, referred to the death of Mr. W. H. Payne, one of the trustees; also to the retirement from the position of trustees of Mr. E. W. C. Whittaker, Southampton, and Mr. Arthur E. Piggott, Manchester, who were two of the founders of the Fund, and expressed indebtedness for the valuable services they had rendered. Subsequently both were elected Vice-Presidents of the Fund. Regarding the accounts, Mr. Nelson stated that less than 37 per cent. of the members of the Society were contributors to the Fund and he appealed to the other members for their support. He considered that the responsibility should be shared by a larger number of members, so that the trustees might not be restricted in making grants in deserving cases. During the year the trustees received an amount of £3,546, representing the proceeds of the "Sir James Martin Memorial Fund," and also a sum of £500 from a member, in memory of his wife, constituting the "Edith Sendell Fund." Certain alterations were made in the rules of the Fund, one of which was to fix life subscriptions at not less than £10 10s.

Last month a question was asked in Parliament whether at an early date a Departmental Committee would be set up to consider amendments dealing with defects and flaws in the Companies Act, 1929. In reply, the President of the Board of Trade said he had given careful consideration to the matter, and had decided to defer such an enquiry for the time being. The following statement of his reasons was subsequently circulated: "It is recognised that the Companies Act, in common with other large bodies of law, needs

Professional Notes.

An important decision has just been given by Mr. Justice Hanna in the High Court of Justice, Ireland, in the case of *Leech v. Stokes Brothers & Pim*, in which damages were claimed for negligence and breach of duty as auditors. In delivering judgment his Lordship reviewed the leading cases bearing upon the subject and in the result held that there was no actionable negligence or breach of duty on the part of the defendants. We publish in this issue a full report of the judgment.

In another part of this issue will be found a report of the proceedings at the forty-fourth annual meeting of the subscribers to the Incorporated Accountants' Benevolent Fund, together with the report of the trustees. It has been deemed advisable to prepare the accounts in a new form this year, capital items being taken direct to the balance sheet instead of being credited to the revenue account and transferred

review and revision from time to time in the light of experience and changing conditions. The question is whether the present time is appropriate for a general inquiry into the need for such revision. In this connection, it will be recalled that action is now pending on two matters which have a direct bearing upon company law."

It appears that the Government has now decided to take steps with regard to the subject of share-pushing. In answer to a question in the House of Commons as to whether it was proposed to take any action to protect the public from the operations of fraudulent vendors of shares, Mr. Runciman stated that the intention of the Government was to set up as soon as possible a departmental committee to consider the matter, and make recommendations as to the action to be taken. The Committee has since been appointed with Sir Archibald Bodkin as chairman.

Mr. Runciman also stated in reply to another question that he was considering how best to deal with undertakings registered under the Industrial and Provident Societies Act, which are advertising and pushing the sale of their shares by means which could not be used under the Companies Act. On the suggestion that the abuse could be remedied by introducing a suitable clause into the existing Companies Act, Mr. Runciman said the matter was not so simple as it appeared, and he would rather deal with the matter wisely than risk making mistakes by undue haste.

In the voluntary winding up of a company, a solicitor and a professional accountant were the joint liquidators. The solicitor carried out certain legal work in connection with an action which was compromised, and upon the taxation of his costs, the taxing officer disallowed the amount representing profit costs, a course which was approved by the Registrar under the provisions of Rule 158 of the Companies Winding-up Rules. The ground of the disallowance was that there was a fiduciary relationship which prevented the solicitor from receiving profit costs for legal work done by himself as liquidator. The matter then came before Mr. Justice Bennett in the Chancery Division, who upheld the view of the Registrar. He said that there must have been some arrangement between the two liquidators whereby the solicitor was to get remuneration beyond what he was entitled to as liquidator.

A somewhat surprising decision in relation to the assent to a deed of arrangement was given

by Mr. Justice Macnaghten in the King's Bench Division recently in the case of *Dunlop Rubber Co., Ltd. v. W. B. Haigh & Sons*. The defendants were indebted to two separate branches of the Dunlop Company and the manager of one branch assented to the deed of arrangement which had been executed by Haigh & Sons, stating the amount of his claim, whilst the manager of the other branch dissented. Each branch manager had knowledge only of the debt due to his particular branch. The deed provided that creditors who assented thereto should release the defendants "from all debts, claims and demands." It was held that the assent of the manager at one branch covered all debts at that branch and elsewhere, and when once given was good for all purposes, so that it was not possible for the plaintiffs subsequently by another agent at another branch to express dissent.

Another interesting question was decided by Mr. Justice Bennett in relation to the payment of a dividend on the non-cumulative $4\frac{1}{2}$ per cent. preference stock in the Argentine Central Railway Co. The articles of the company provided that the preference dividend in question should be "payable only out of the profits available for dividend of the year for which it is payable." This, it was claimed by Mr. Attfield, a holder of 6 per cent. cumulative preference stock, prevented any dividend being paid except out of the profits earned exclusively in the year for which the dividend was paid. For the last financial year the company paid a $3\frac{1}{2}$ per cent. dividend on the $4\frac{1}{2}$ per cent. preference stock, which absorbed a sum very considerably in excess of the profits which had been made in that year, and accumulated profits from previous years were used to make up the required amount. The justification put forward for this procedure was that the words "of the year" were inserted in the article solely for the purpose of showing that the dividend was non-cumulative. This view was upheld by Mr. Justice Bennett, who said that in his opinion the words were inserted in the Article merely for the purpose of making it plain that the dividend on the $4\frac{1}{2}$ per cent. preference stock was not to be cumulative, and not for the purpose of confining dividends payable on that stock to profits made exclusively in a particular year.

The Trinidad Petroleum Development Company have appealed from the decision of Mr. Justice Lawrence to which we referred in these columns in June last. It will be remembered

that the company made profits during the year 1932-33 which were assessed for the year 1933-34, but owing to the set-off of losses incurred in previous years under sect. 33 of the Finance Act, 1926, no tax was payable. During the year 1933-34, however, interest was paid and the Inland Revenue Authorities made an assessment thereon under general Rule 21 of the Income Tax Act, 1918, on the ground that the interest had not been paid out of profits or gains brought into charge to tax. The company objected to this assessment, maintaining that there were available assessable profits, although as the result of the application of sect. 33 no tax was in fact payable. The Court of Appeal have unanimously upheld the decision of Mr. Justice Lawrence, whose judgment was in favour of the Crown.

Persons who are interested in children's settlements which were entered into prior to the 1936 Budget for the purpose of avoiding Income Tax, are now having to consider their position. The general effect of the 1936 Finance Act is to make all settlements of this character inoperative for the purpose of avoiding Income Tax except settlements which were irrevocable before the Budget was introduced, and settlements involving an income of £5 or under. Other settlements containing a revocation clause can still be made irrevocable by a supplementary deed, but this provides only a very partial remedy, namely, that accumulations of income under the settlement will only be deemed to be the settlor's income in so far as they are applied in any year to or for the benefit of the child. The alternative is to revoke the deed entirely, which can only be done safely by a document under seal.

The members of the Society of Incorporated Accountants are reminded of the dinner of the Society to be held in Guildhall, London, by kind permission of the Lord Mayor and Corporation, on Thursday, February 25th, 1937. A further announcement in regard to the dinner will be made shortly. In the meantime members are requested to make a note of the date.

In connection with the announcement of F. W. Woolworth & Co., Limited, that the ordinary shareholders are to receive a capital bonus of one new share for each existing share held, a calculation has been made by a correspondent of a well-known London newspaper that a 5s. investment in the original ordinary shares of Woolworth & Co. in the year 1909 has now become worth more than £60,000. This, it is stated, has

developed from the conversion of the original private company into a public company in the year 1931, and the capitalisation of large amounts of undistributed profits as the result of which the original 5s. investment is now represented by 7,500 ordinary shares of the market value of £8 2s. 6d. each, together with 2,430 preference shares which are at present quoted at 32s. On the face of it, this seems almost incredible, but the City Editor of the newspaper referred to has published a statement showing how the calculation is arrived at. There were originally 10,000 ordinary shares of 1s. each, which were subsequently consolidated into 2,000 shares of 5s. each. The ordinary shares now number 15,000,000 before giving effect to the capital bonus above referred to.

Replying to the toast of the Legal Profession at the centenary dinner of the Law Students' Debating Society, Sir Patrick Hastings said that the late Mr. Justice Avory, who was one of the greatest lawyers he had ever known, never made a note in his life, and never allowed anyone who worked under him to do so, the reason given being "If you make a note you will lose it for an absolute certainty. You had better talk the nonsense that is in your head than talk the nonsense you have written on paper over night, and which you cannot find when you want it."

INTERPRETATION OF GOLD CLAUSE.

Once again the Court of Appeal has been called upon to interpret the effect of "gold clauses" in International bonds. On this occasion action was taken by Petition of Right against the Crown by the Trustee for the Protection of Bondholders Aktiengesellschaft; the bonds concerned being certain 5½ per cent. coupon gold bonds issued by the British Government in America in 1917.

Among the terms of these bonds appeared a clause whereby the British Government undertook to pay the principal and interest "at the option of the holder, either in the City of New York, State of New York, United States of America, at the office or agency which will be maintained in the said city by the obligor for the service of the bonds of this issue in gold coin of the United States of America of the standard of weight and fineness existing on February 1, 1917, or in the City of London, England, in sterling money at the fixed rate of \$4.86½ to the pound."

In 1933 the United States Government reduced the gold content of the dollar, and a resolution

was passed by Congress to the effect that a provision in a contract purporting to give a party the right to require payment in gold or in an amount in money of the United States measured thereby was contrary to public policy. The resolution provided, moreover, that, notwithstanding any such provision, an obligation should be discharged upon payment, dollar for dollar, in any coin or currency which might be legal tender at the time of the payment.

In these circumstances, the English Courts were called upon to determine whether the British Government could discharge their obligations under the bonds issued in 1917 by making payments in depreciated dollars.

The petitioners relied principally on the case of *Feist v. Société Intercommunale Belge d'Electricité*, which was referred to in our Professional Notes of January, 1934. In that case the bonds under consideration provided that the holders should be paid "the sum of £100 in sterling in gold coin of the United Kingdom of or equal to the standard of weight and fineness existing on the 1st day of September, 1928."

The House of Lords held that this clause was intended to protect the bondholders from loss due to fluctuation in the value of sterling, and that they were entitled to a sum of money representing the price in London in sterling (calculated at the date of payment) of 123.27447 grains of gold in respect of each nominal £1 secured by the bond.

In the recent case, however, Mr. Justice Branson held in the Court of first instance that, by reason of the resolution of Congress which had rendered void the obligation to pay in gold in New York, the decision in the Feist case did not apply.

The Court of Appeal, while agreeing with Mr. Justice Branson's view that the contract was one which was governed by English law, did not accept his interpretation of that law. It was established, they said, that gold clauses such as those under consideration "were intended to afford a definite standard or measure of value" which would protect the investor from loss due to depreciation of currency. That was the view taken of the clause in Feist's case; and there was no substantial distinction between the language of the bond in this case and that of the bond in the earlier case.

Mr. Justice Branson had taken the view that the obligations under the bond could be discharged in New York only by payment in gold, and that since Congress had resolved that this form of payment was contrary to public policy,

an English Court ought not to give a judgment which would run contrary to that policy. In fact, however, this interpretation of the clause was unsound. The clause did not entitle the holders of the bond to payment in gold; but merely to payment in dollars the number of which was to be ascertained by reference to what had been the gold content of the dollar on February 1, 1917. Nothing in the resolution of Congress rendered illegal such an arrangement.

The holders of the bonds who elected to take up the New York option were entitled, therefore, to such an amount in dollars as was equivalent to the value in currency at that time of \$1,000 gold specified in the contract; while those who took up the London option were entitled to be paid the equivalent of \$1,000 at the fixed rate of \$4.86½ to the pound in sterling money of England.

PIECE WORK AND OVERTIME

(Contributed.)

Questions of piece work, hours of labour, factory conditions and the like, have usually been regarded as coming solely within the province of the works manager or production department. There is, however, a growing tendency for such matters to come within the purview of the accountant or secretary. This is rightly so, because costing systems will naturally be under the control of the office staff, and as a result they will be in possession of daily or weekly records of output. From such records much valuable information regarding hourly output and labour costs may be obtained, and the question of piece work prices and overtime costs follow quite normally.

Before piece work can be introduced into a factory, it is essential that the output should be readily measurable. Where production is split up into many processes, each process being performed on a machine which runs continuously, and, in so doing, repeats exactly the same process, conditions suitable for the introduction of piece work are usually found. There are, however, one or two dangers in this method of payment. Where quality of work is of the utmost importance, or where the employee is using very delicate machinery it may be advisable to keep to time rates. Again, if the work to be performed is heavy, the system of payment by results may lead to a fall in output through excessive work at the beginning of the day being followed by fatigue; but the undoubted advantages of piece work in those cases where the worker's output or amount of work done is easily ascertained, make it advisable that,

wherever possible, piece work should be introduced.

Generally speaking, the workers are favourably disposed to piece work in principle. Yet, how often do we see cases in which the introduction of piece work, where time rates have previously ruled, cause a great deal of friction and discontent in the factory. Often, too, it fails to encourage any extra effort on the part of the workmen, and its introduction is usually viewed with a great deal of suspicion. It is not the principle which is in question, however; the real cause of the trouble is that the workers feel that in some way or other the rates fixed are not in their interest. There must, however, be an equitable piece rate for each type of work, and after all it is not very difficult to arrive at this rate.

The calculation of piece rates requires records of work done or output on time rates. These records must be compiled without the employees having any suspicion that they will be used for the purpose of fixing a piece rate. If they know the object of the records they will most likely defeat its purpose. It is not sufficient to record a single day's output, as the work done from day to day may differ considerably; an average over a fortnight or longer is much more representative. If such records are taken as a part of the normal routine, so much the better; they will then merely require inspection.

The wage obtained for one unit of work or output should be the same whether piece rates or time rates are in operation. This is perfectly fair to the workman, as he gets the same pay for the same amount of work. An example will make the point clearer. Suppose the daily wage on a time basis has been 10s. 8d. a day, and an inspection of records reveals that, on an average 64 processes are performed by men earning that wage. This works out at 2d. per process. If now, a piece rate is introduced this should be 2d. per process. From the point of view of the employer, if a wage of 10s. 8d. a day was a paying proposition, a piece rate of 2d. per process will be more so. The extra effort that will be called forth will lead to a greater output with only a corresponding increase in wages cost and no increase in fixed charges which will then bear less heavily on each unit of output.

But it may be insufficient to calculate a piece rate in this manner and then leave things to take their chance. The rate must be introduced in a tactful manner. Perhaps the best plan is for a responsible official of the firm to take the men into his confidence by pointing out how the rate has been arrived at, and, above all, to give a guarantee that under no circumstances will the rate

be cut. Whenever possible the piece rate price should be as simple as possible, so that the employees may easily calculate the amount due to them by way of wages each week. In such circumstances the change-over from time rates to piece rates will lead to an increase in output of anything up to 50 per cent. immediately after the change is made. After a time the output will drop until it will become steady at a figure of probably 20 to 30 per cent. above time rate output.

Now let us look for a moment at the question of overtime. Some employers and works managers will point out with pride that their men have been working overtime for a long period. It is not at all certain that such pride is justifiable; it may even indicate inefficient organisation. Overtime is expensive from several points of view. First of all, overtime rates are in excess of ordinary hourly rates. Moreover, the hourly output during the overtime period is usually less than that during the normal working period. An examination of the average hourly curve of work done reveals some interesting facts. Generally speaking, the output tends to rise during the first part of the morning, reaching its maximum about 11 a.m., after which it falls until the mid-day break. At the beginning of the afternoon the output is about the level of what it was at the end of the morning, and tends to rise just a little during the early afternoon. As the afternoon proceeds, the output begins to fall rapidly, and this downward trend continues until work ceases. Thus, the later the factory works, the less the hourly output. This fall in output is due to a number of causes, the chief of which is fatigue, which manifests itself in various ways. There is a greater amount of spoilt work; for example, waitresses break more crockery when tired at the end of the day. Overtime work often has to be done under less satisfactory conditions of illumination which further increases the proportion of spoilt work. The net result is to make overtime labour much more expensive than ordinary day labour.

In estimating the increased cost of overtime working and the efficiency of labour, a good plan is to keep records of the total hours of productive labour month by month, as well as of the total wages paid for work done by way of production. The wages figure divided by the total hours worked gives the average hourly cost of productive labour. If, then, the total of productive wages paid is expressed as a percentage of the value of the output for the same period, the figures so obtained will show the variations in the efficiency of labour. These should be compared with the average hourly costs of labour, and the results will give some indication of any lowered efficiency due to overtime.

MISUSE OF THE DESIGNATION "INCORPORATED ACCOUNTANT."

In the Chancery Division on November 13th, before Mr. Justice Bennett, the Society of Incorporated Accountants and Auditors brought an action against Frederick George Butler, "Eastnor," Lodge Lane, Bexley, Kent, to restrain him from using the letters "F.S.A.A." after his name, or describing himself as "Incorporated Accountant."

Mr. Roger Turnbull, who appeared for the Society, said: I have a motion for an injunction to restrain the defendant from using in connection with his business of accountant the title "F.S.A.A." or "Incorporated Accountant." My Friend, Mr. Goff, appears for the defendant, and he is prepared to submit to a perpetual injunction to treat the motion as the trial of the action, and to pay the plaintiff's costs. The formal injunction as asked by the writ is slightly altered by putting in the words "so long as the defendant is not a member of the plaintiff society" after the words "from using."

Mr. R. W. Goff: I appear on behalf of the defendant, and I consent to that.

Mr. Justice Bennett: Very well, then it will be by consent.

Mr. Roger Turnbull: If your Lordship pleases.

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

A meeting of the Council of the Society of Incorporated Accountants and Auditors was held at Incorporated Accountants' Hall on November 24th. There were present:—Mr. R. Wilson Bartlett (President) in the chair, Mr. Walter Holman (Vice-President), Mr. F. J. Alban, Mr. C. P. Barrowcliff, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubbs, Mr. Henry J. Burgess, Mr. D. E. Campbell, Mr. W. Allison Davies, Mr. R. T. Dunlop, Mr. E. Cassleton Elliott, Mr. Henry Morgan, Mr. C. Hewetson Nelson, Mr. James Paterson, Mr. William Paynter, Mr. F. A. Prior, Mr. Percy Toothill, Mr. Joseph Turner, Mr. A. H. Walkey, Mr. R. T. Warwick, Mr. Richard A. Witty, Mr. Fred Woolley, Mr. A. A. Garrett (secretary), and Mr. J. R. W. Alexander (standing counsel).

Apologies for non-attendance were received from Mr. Arthur Collins, Mr. M. J. Faulks, Mr. F. Holliday, Sir Thomas Keens, and Mr. Edmund Lund.

RESIGNATIONS.

The following resignations of membership were received with regret:—Mr. Eric Arthur Greenwood, Associate, Dewsbury; Mr. Edward Swallow, Fellow, Bridlington (formerly Peterborough).

DISCIPLINARY COMMITTEE.

The Council received a report that the Disciplinary Committee had considered the circumstances relating to Articles of Clerkship executed on December 12th, 1931, by Mr. George Ellerton McCanlis, Fellow, London, and a clerk. It was proved to the Committee that during the currency of such articles the clerk had not in fact been engaged in the service of Mr. McCanlis in or about the professional business of Mr. McCanlis in accordance with the regulations of the Society, but had been the whole-time employee of a mercantile firm.

The Committee resolved that in accordance with Article 32 Mr. McCanlis be censured for his conduct in relation to such Articles of Clerkship.

DEATH.

The Secretary reported the death of Mr. David John Richards, Associate, Hastings.

CONFERENCE IN BELFAST—JUNE, 1937.

The President made a report of a meeting between himself, the Secretary, and the Committee of the Belfast District Society and outlined a tentative programme of a Conference of Incorporated Accountants which will be held in Belfast from June 23rd to June 26th, 1937. The Council recorded their thanks to the Belfast District Society for the proposals.

MISUSE OF DESIGNATION "INCORPORATED ACCOUNTANT."

The Secretary reported that an injunction was granted on November 30th, 1936, in the High Court of Justice, Chancery Division, against Mr. Frederick George Butler, restraining him from using the designation "Incorporated Accountant" or the initial letters "F.S.A.A." so long as he is not a member of the Society.

INCORPORATED ACCOUNTANTS' LODGE.

The Installation Meeting of the Incorporated Accountants' Lodge was held at Freemasons Hall, Great Queen Street, London, on October 27th, when Bro. Charles Augustine Holliday was installed in the chair by his predecessor, Bro. W. J. Crafter. A large gathering assembled, and among those present were:—Bro. A. H. King, P.D.G.W., Ceylon; Bro. G. E. Oswick, P.P.G.W., Bucks; Bro. M. J. Faulks, P.A.G.D.C.; Bro. Richard A. Witty, P.G.St.B.; Bro. W. Lyall, L.R.; Bros. W. L. Jackson, J. Patterson, R. I. Ling, W. L. Jackson, W. H. Newton, G. E. Griffin, C. H. Smith, J. C. Griffin, E. M. Burroughs, E. W. Longhurst, H. J. Lester, F. E. Hankinson, H. E. Davis, J. H. Garland, W. J. Beardsley, H. E. Clark, W. Gould, L. Vermont, J. James, A. S. Wagstaff, W. A. Pearman, A. V. Huson, M. Widdowson, L.R., F. E. Clements, L.R., James C. Fay, Henry J. Burgess, L.R., Sir Thomas Keens, Walter Holman, and A. A. Garrett.

Bro. Crafter referred in sympathetic terms to the loss suffered by the Lodge since the last meeting by the death of Bro. W. H. Payne, who had held the office of Treasurer from the inception of the Lodge.

Bro. Holliday appointed his officers as follows:—Bro. A. S. Darr, S.W.; Bro. C. A. Sales, J.W.; Bro. A. V. Huson, Treasurer; Bro. M. J. Faulks, P.A.G.D.C., Secretary; Bro. Richard A. Witty, P.G.St.B., D.C.; Bro. E. J. P. Garratt, S.D.; Bro. Walter Holman, J.D.; Bro. W. C. Chaffey, A.D.C.; Bro. H. J. Burgess, L.R., Almoner; Bro. W. Douglas Menzies, Organist; Bro. Sir Thomas Keens, Assistant Secretary; Bro. A. A. Garrett, I.G.; Bros. F. C. Baker, E. Baldry, H. W. Petherick and H. A. R. J. Wilson, Stewards.

At the dinner in the evening the health of the Worshipful Master was proposed by Bro. W. J. Crafter and honoured with enthusiasm. In responding, Bro. Holliday said he was impressed with the dignity of the office he now occupied, and that he intended to carry out the duties of that office with the highest regard for the honour of the Craft and of Incorporated Accountants. The toast of "The Visiting Brethren" was given by Bro. A. S. Darr, and responded to by Bro. W. H. Newton (Chartered Accountants' Lodge), Bro. W. J. Beardsley (Snaresbrook Lodge) and Bro. W. Lyall (Scots Lodge).

The Lodge meets at Freemasons' Hall on the fourth Tuesday in October (Installation), third Tuesday in December, fourth Tuesday in January and first Tuesday in March. The Secretary is Mr. M. J. Faulks, M.A., F.S.A.A., 3, Abchurch Yard, London, E.C.4.

The Incorporated Accountants' Benevolent Fund.

FORTY-FOURTH ANNUAL MEETING.

The 44th Annual Meeting of subscribers and donors to the Incorporated Accountants' Benevolent Fund was held at Incorporated Accountants' Hall on November 24th. The chair was occupied by the President of the Fund, Mr. C. Hewetson Nelson, and there were also present Mr. R. M. Branson, Mr. H. J. Burgess, Mr. W. Paynter, Mr. Percy Toothill, and Mr. R. T. Warwick (Trustees), Mr. F. J. Alban, Mr. R. Wilson Bartlett, Mr. C. P. Barrowcliff, Mr. J. Paterson Brodie, Mr. W. N. Bubb, Mr. W. G. Buchanan, Mr. D. E. Campbell, Mr. E. Cassleton Elliott, Mr. Walter Holman, Mr. Henry Morgan, Mr. J. Paterson, Mr. S. C. Pinhorn, Mr. F. A. Prior, Mr. S. H. Robb, Mr. W. G. Strachan, Mr. J. Turner, Mr. A. H. Walkey, Mr. F. Woolley, Mr. J. C. Fay, Mr. W. J. Freeman, and Mr. A. A. Garrett (Hon. Secretary).

Mr. NELSON said: This is the first occasion on which I have had the pleasure of addressing the subscribers and donors to the Incorporated Accountants' Benevolent Fund since they did me the honour of electing me President in succession to our good friend the late Sir James Martin. That to me is an inspiration in itself.

The regretted death of Mr. William Henry Payne has been a great loss to the Trustees. His good judgment and generous spirit pre-eminently qualified him for the work of this Fund, to which he actively devoted himself to the time of his death.

I will ask that a cordial message be sent from this meeting to Mr. E. W. C. Whittaker (Southampton) and Mr. Arthur E. Piggott (Manchester) to express the indebtedness of the Benevolent Fund for their labours as Trustees since the Fund was established. Mr. Whittaker and Mr. Piggott, with the late Sir James Martin, were founders of the Fund, and I am confident that its present position and beneficent work will afford them cause for gratification upon their retirement from the office of Trustee. In a resolution to be submitted later you will be asked to elect Mr. Whittaker and Mr. Piggott Vice-Presidents.

Allowing for some special contributions made in the previous year in connection with the Fiftieth Anniversary of the Society, the total ordinary receipts, both income and capital, have been well maintained—£1,765, against £1,885. These figures are given for comparison only, as they are split up between the revenue account and the balance sheet. The Trustees deemed it wise to prepare the accounts in a new form, capital items being taken direct to the balance sheet instead of being credited to the revenue account as hitherto. This arrangement discloses more clearly the operation of Rule 17 and the amount to which the Trustees must have regard in making grants. For the year 1935-36 the Trustees were entitled under Rule 17 to expend in grants £1,301, represented by the subscriptions and investment income for the previous year. The amount

actually expended by them was £1,286, leaving the narrow margin of £15. This involved very careful management, and, I am bound to add, some attenuation in the amount of some individual grants, which, with greater annual resources at their disposal, the Trustees would have been glad to increase. Thus, because of the satisfactory position of the capital fund, which must be maintained and augmented, and the careful management of the Trustees, I do not want would-be subscribers to say, "The Fund has plenty of money."

I am most grateful to those who have supported the Fund regularly year by year, but I am moved to say that that responsibility should be shared by a larger number of members of the Society. I want the Trustees to feel they can spend in grants what they consider the cases need and deserve, and not to be too restricted, as I suggest they are now. The Trustees must have regard both to the income immediately available for grants and to the capital of the Fund in relation to probable calls upon it in future years. They have carefully investigated the operation of Rule 17, and are definitely of opinion that the change suggested by some contributors, whereby a smaller sum should be placed to capital each year, would be inadvisable.

My great desire in regard to the policy of this Fund is that every member of the Society should contribute annually, and thus give the Trustees what they need for the work. At present only 36.6 per cent. of the members of the Society contribute. I appeal to the goodwill and kindness of all members, and especially of those who have not hitherto subscribed.

The Trustees have received £3,546, being the proceeds of the Sir James Martin Memorial Fund, a useful and appropriate memorial to Sir James Martin's work for this Fund. I am very grateful for the kindly thought and generous gift of a member to perpetuate the memory of one whom he loved.

I find that in no less than twenty cases grants have been made for the education of children of deceased members, which otherwise would have suffered. The total eventual charge on the Fund in each case is moderate, as each grant automatically expires after a few years. This is an excellent investment of the money of the Fund.

It is impossible by speech or writing to express the depth of human feeling and real need arising from early death, illness or adversity, which the Trustees meet through this Fund. The work of the Fund is among our own professional brethren, and more especially their dependants and children. Moreover, its work could not be discharged in any other way or through any other channel, and certainly not with that measure of sympathy, judgment and goodwill, for which we are all so greatly indebted to Mr. Henry Burgess, the Chairman, and the other Trustees.

Mr. Nelson concluded by moving the adoption of the report and accounts. The motion was seconded by Mr. Burgess and carried unanimously.

ALTERATION OF RULES.

Mr. H. J. BURGESS, Chairman of the Trustees, moved that certain alterations be made in the Rules, notice of which had been given in the notice convening the meeting.

He said: I have pleasure in moving the resolution in regard to the alteration of the rules, a copy of which is in your hands. I shall be much obliged if members will be good enough to refer to the existing rules of the Benevolent Fund to be found in the Year Book, pages 1169-1175. Although I have to move one resolution, I will deal with each of the rules separately.

Rule 3.—The minimum subscription of 10s. 6d. was fixed many years before the war. The Trustees have felt that the rule, as stated, may be a slight discouragement to subscribers. We are very glad to receive subscriptions of 10s. 6d. from the junior members of the Society. While it is not proposed to state any minimum amount, it is hoped the effect of the new rule will be to stimulate the subscribers to make each subscription £1 1s., especially in connection with covenanted subscriptions for seven years. By covenanted subscriptions the Benevolent Fund benefits considerably—last year to the extent of £51.

A slight alteration has also been made in regard to the definition of a life subscriber, which brings the rule more into conformity with existing practice.

Rule 5.—It is very desirable that the Trustees should have power to fill an occasional vacancy in the number of the Trustees. During the last year, three occasional vacancies occurred, and the Trustees took the responsibility of appointing three other members to fill the vacancies. This was essential if the work was to be carried out efficiently. It is proposed that the power to fill occasional vacancies shall be given to the Trustees subject to such Trustees holding office until the next annual general meeting of subscribers.

Rule 6.—The rule in its new form will indicate some of the duties now carried out by the Honorary Secretary. At the present time there is not an Honorary Treasurer, and it is desirable that the Honorary Secretary's duties in regard to the receipt of revenue should be set out in the rules. If it were considered desirable to do so an Honorary Treasurer could still be appointed under the rule.

Rule 12.—The Trustees have come to the conclusion that it would be more advantageous if the financial year of the Benevolent Fund ran from January 1st to December 31st, and that, if possible, the annual general meeting be held on the same day as the annual general meeting of the Society. In this way it is hoped to secure a larger attendance of the members at the annual general meeting of the Benevolent Fund, particularly amongst those not resident in London, who come to London for the annual meeting of the Society. In order that the date may not be fixed too rigidly, it is stipulated that the annual

general meeting of the Benevolent Fund should be held not later than six calendar months after the end of the financial year.

To give effect to the alteration, the next financial period will extend from October 1st, 1936, to December 31st, 1937. This change is hoped to widen general interest in the Benevolent Fund.

Rule 17.—This is purely a technical alteration to bring Rule 17 into conformity with Rule 12.

The motion was seconded by Mr. R. T. Warwick.

Mr. F. Woolley moved that in regard to the redraft of Rule 3 as proposed by Mr. Burgess, the words "ten guineas" (as a life subscription) be substituted for the words "five guineas." Mr. Woolley said he felt that ten guineas was the appropriate amount of a life subscription, and he hoped the subscribers would adopt that view and give the proposal their practical support. Mr. Alban seconded the amendment and was supported by Mr. Wilson Bartlett. The amendment was carried unanimously. After discussion, the President put the resolution, including the amendment, to the meeting, and it was carried in the following form:—

RESOLUTION.

That the Rules and Regulations of the Incorporated Accountants' Benevolent Fund be and the same are hereby altered in the following manner, that is to say:—

- (a) Rule 3 shall be deleted and the following rule substituted therefor:

"3. The Fund shall be raised by donations and voluntary subscriptions. A single donation or subscription of not less than £10 10s. shall entitle the donor or subscriber thereof to the privileges of a subscriber for life. Subscriptions shall be payable on January 1st in each year."

- (b) There shall be added at the end of Rule 5 the following words:—

"In case there shall be one or more occasional vacancies in the number of the Trustees which the remaining Trustees think it desirable to fill up without waiting for the next general meeting of subscribers or a special meeting of subscribers convened for the purpose of filling such vacancy or vacancies to be held, they may fill up the same, but the Trustee or Trustees so appointed shall hold office only until the next general meeting of subscribers."

- (c) The words in Rule 6, "They may appoint" to the end of that rule and the whole of Rule 7 shall be deleted and the following rule shall be substituted therefor:—

"7. The Trustees may appoint an Honorary Treasurer and an Honorary Secretary who shall sign receipts for all moneys they may respectively receive on account of the Fund, and their respective receipts shall be held to be good discharges for all sums paid to them respectively. It shall be the duty of the Honorary Treasurer and the Honorary Secretary to keep a cash account of all moneys received

by them respectively on account of the Fund, and to deposit with such bankers as the Trustees may direct all moneys they may respectively receive on behalf of the Trustees. No payment exceeding £2 in amount shall be made except by cheque signed by not less than two of the Trustees. It shall also be the duty of the Honorary Secretary to keep correct minutes of the proceedings of all meetings and to transact all other business pertaining to the office. The Trustees may decide upon a yearly sum to be paid through the Honorary Secretary for clerical assistance necessary in conducting the affairs of the Fund."

- (d) The words in Rule 12 "within three calendar months from the first day of October for receiving the accounts of the past year and the report of the Trustees" shall be deleted and the following words shall be substituted therefor:

"On a date not later than six calendar months after the termination of the preceding financial year for receiving the accounts of such financial year and the report of the Trustees. The financial year shall extend from October 1st, 1936, to December 31st, 1937, and thereafter from January 1st to December 31st in each year."

- (e) In Rule 17 the word "financial" shall be inserted before the word "year" wherever the latter word appears.

ELECTION OF PRESIDENT.

On the motion of Mr. R. T. Warwick, seconded by Mr. Percy Toothill, Mr. C. Hewetson Nelson, was re-elected President of the Fund.

ELECTION OF TRUSTEES.

On the proposal of Mr. R. Wilson Bartlett, seconded by Mr. E. Cassleton Elliott, the following were unanimously re-elected Trustees:—Mr. H. J. Burgess, Mr. R. T. Warwick. On the motion of Mr. C. Percival Barrowcliff, seconded by Mr. F. A. Prior, the following were unanimously elected new Trustees: Mr. Ralph Macaulay Branson, Leicester; Mr. William Paynter, London; and Mr. Percy Toothill, Sheffield.

ELECTION OF VICE-PRESIDENTS.

Mr. R. T. Warwick proposed, and Mr. R. M. Branson seconded, the re-election as Vice-Presidents of the following:—Mr. E. L. Burton, Sir Harry Hands, Mr. Alexander Hannah, Mr. R. P. Phillips, Mr. William Strachan, Mr. W. McIntosh Whyte, Mr. Arthur Collins, and Mr. A. A. Garrett. The motion was carried unanimously.

On the motion of Mr. Percy Toothill, seconded by Mr. W. Paynter, the following were unanimously elected Vice-Presidents:—Mr. E. W. C. Whittaker, Mr. Arthur E. Piggott, formerly Trustees of the Fund.

ELECTION OF HONORARY AUDITOR.

On a motion proposed by Mr. W. G. Strachan and seconded by Mr. W. Norman Bubb, Mr. W. Southwood Smith was unanimously re-elected Honorary Auditor, with a vote of thanks for his services.

Mr. R. Wilson Bartlett moved a vote of thanks to Mr. C. Hewetson Nelson for occupying the chair, and said that they were all interested in the several departments of work undertaken by Mr. Hewetson Nelson, who was the Senior Past President. They knew how much Mr. Hewetson Nelson had the interests of the Benevolent Fund at heart and with what energy and foresight he conducted its affairs.

The President of the Fund acknowledged the resolution and referred to the presence of Mr. W. G. Buchanan, an original member of the Society of Incorporated Accountants, whom they were very pleased to see at the meeting.

Report of the Trustees.

The Trustees have pleasure in presenting to subscribers and donors their report for the year ended September 30th, 1936.

They record with deep regret the death of Mr. William Henry Payne, London, who had been a Trustee since 1930.

At the annual meeting of subscribers held in December, 1935, Mr. Charles Hewetson Nelson was elected President of the Fund, in succession to the late Sir James Martin.

During the year there were received with regret the resignations of Mr. E. W. C. Whittaker, Southampton, and Mr. A. E. Piggott, Manchester, as Trustees. Mr. Whittaker and Mr. Piggott were original Trustees of the Fund, being appointed upon its establishment in 1892.

Subscribers will be asked to accept the resignations and to express their thanks to Mr. Whittaker and Mr. Piggott for their long and valued services.

Mr. William Paynter, London, Mr. Percy Toothill, Sheffield, and Mr. R. M. Branson, Leicester, were co-opted as Trustees during the year to fill the two vacancies referred to and the vacancy caused by the death of Mr. W. H. Payne. Subscribers will be asked to elect these gentlemen as Trustees at the annual meeting.

The aggregate of the sums contributed, together with income from investments for the year 1935-1936, was £1,765 10s. 8d., made up of the sums of £1,488 4s. 2d. credited to revenue account, together with life subscriptions £78 15s. and donations £198 11s. 6d. credited to capital account on the balance sheet. The corresponding amount for 1934-1935 was £1,885 11s. 11d., but this sum included some special contributions made on the occasion of the 50th anniversary of the Society of Incorporated Accountants and Auditors.

Income-tax refunds amounting to £51 8s. 6d. have been obtained in connection with the covenants to contribute for seven years, into which a number of subscribers have been good enough to enter.

The "Edith Sendell Fund" shown in the balance sheet has been created by a gift of £500 from Mr. George Ernest Sendell, F.C.A., F.S.A.A., to perpetuate the memory of his wife, and the trustees express their grateful acknowledgment of the gift.

During the year the sum of £3,546 16s. 9d., subscribed in response to the appeal made by the

President of the Society in memory of the late Sir James Martin, has been added to the capital of the Fund. This amount has been invested and will be permanently earmarked in the accounts as the "Sir James Martin Memorial Fund."

The Trustees desire to acknowledge the co-operation of the President of the Society and of the Branches and District Societies in regard to the Sir James Martin Memorial Fund and in other ways.

In order to show more effectively the operation of Rule 17, the accounts have been prepared in a slightly different form.

Applications for assistance were rather more numerous than in 1934-1935. The total sum distributed in grants was £1,285 14s., an increase of about £70.

The particulars are as follows:—

- £28 (in addition to £645 previously granted) to the widow of a Fellow towards the maintenance and education of her four children.
- £40 (in addition to £375 previously granted) to a former Fellow who is over 80 years of age and blind.
- £30 (in addition to £360 previously granted) to the mother of an Associate who was killed in action. The recipient is over 80 years of age.
- £50 (in addition to £147 10s. previously granted) towards the education of the children of an Associate whose early death arose through wounds received on active service.
- £22 10s. (in addition to £132 10s. previously granted) to the widow of an Associate for the education of her child.
- £6 13s. 4d. (in addition to £112 previously granted) to the widow of an Associate for the education of her daughter.
- £22 10s. (in addition to £90 previously granted) to an Associate of the Society in ill-health towards the education of his children.
- £20 (in addition to £296 previously granted) to the dependant of a deceased Fellow.
- £16 13s. 4d. (in addition to £218 7s. previously granted) for the education of one of the children of a deceased Fellow.
- £20 (in addition to £110 previously granted) to the sisters of a deceased Associate who are in straitened circumstances.
- £25 (in addition to £105 previously granted) to the daughter of a deceased Fellow.
- £39 (in addition to £149 5s. previously granted) to a former Associate in indifferent health.
- £40 (in addition to £160 previously granted) to the widow of an Associate for the support of her children.
- £27 10s. (in addition to £101 10s. previously granted) to the widow of a Fellow.
- £40 (in addition to £125 previously granted) to the widow of an Associate for the support of her children.
- £30 (in addition to £70 previously granted) to the widow of an Associate.
- £40 (in addition to £100 previously granted) to the widow of an Associate towards the education of her children.
- £30 (in addition to £80 previously granted) to a former Associate of the Society of advanced age.
- £15 (in addition to £50 previously granted) to the widow of an Associate.
- £15 (in addition to £55 previously granted) to the daughter of a deceased member towards her education.
- £22 10s. (in addition to £87 10s. previously granted) to an Associate member in ill-health.
- £36 13s. 4d. (in addition to £100 previously granted) to the widow of an Associate member towards the education of her daughter.
- £7 10s. (in addition to £82 10s. previously granted) to an Associate member in straitened circumstances (*since deceased*).
- £20 (in addition to £70 previously granted) to a Fellow of the Society whose income has been seriously reduced.
- £35 4s. (in addition to £40 previously granted) to the widow of a Fellow in poor circumstances.
- £30 (in addition to £27 10s. previously granted) to a former Fellow of advanced age and in poor health.
- £30 (in addition to £50 previously granted) to a Fellow overseas who has had to relinquish his practice through ill-health.
- £42 (in addition to £42 previously granted) to the widow of an Associate towards the education of her two children.
- £42 10s. (in addition to £37 10s. previously granted) to the widow of an Associate for the education of her son.
- £35 (in addition to £10 previously granted) to the widow of an Associate member towards the education of her child.
- £20 (in addition to £10 previously granted) to a former Fellow of advanced age.
- £30 (balance of a grant of £40) to the widow of an Associate left in reduced circumstances.
- £26 10s. to the daughter of a deceased member towards her education.
- £30 to the son of a deceased member towards his apprenticeship.
- £10 (in addition to £10 previously granted) to the widow of a former Associate member.
- £40 to a Fellow of the Society whose position called for some temporary assistance.
- £25 to the widow of an Associate member towards the education of her younger child.
- £15 (part of a grant of £30) to the widow of a member who died at an early age.
- £15 (part of a grant of £30) to the widow of an Associate member who died following an accident.
- £20 to the widow of an Associate member who is unable to earn her living owing to disability.
- £20 to the widow of an Associate member who died after a long and painful illness.
- £20 (in addition to £25 previously granted) to a Fellow of the Society of advanced age and failing eyesight (*since deceased*).
- £5 (part of a grant of £20) to the widow of an Associate member to assist in the education of her son.
- £30 to the widow of an Associate member who died after a prolonged illness, towards the education of her son.
- £20 to the widow of an Associate member towards the school fees of her two children.
- £30 to an Associate member as a contribution towards the expenses of his wife's long illness.
- £15 (in addition to £80 previously granted) to a former member who through illness has been out of employment.
- £10 (in addition to £60 previously granted) to a Fellow of the Society of advanced age.
- £45 for assistance in four cases.

The expenses of the Fund have again been confined to the necessary outlays for printing and postage.

Dated this 16th day of November, 1936.

HENRY J. BURGESS,	} Trustees.
R. T. WARWICK,	
W. PAYNTER,	
PERCY TOOTHILL,	
R. M. BRANSON,	
A. A. GARRETT, <i>Hon. Secretary.</i>	

THE INCORPORATED ACCOUNTANTS' BENEVOLENT FUND.

Dr. REVENUE ACCOUNT for the Year ended September 30th, 1936. Cr.

	£	s.	d.		£	s.	d.
To Printing, Postages and Sundries ..	106	7	7	By Annual Subscriptions ..	943	15	0
„ Grants ..	1,285	14	0	„ Refund of Tax on Covenanted Subscriptions ..	51	8	6
„ Balance, being Surplus for the year ..				„ Dividends on Investments (including Income Tax recovered) ..	493	0	8
„ carried to Balance Sheet ..	96	2	7				
	£1,488	4	2		£1,488	4	2

BALANCE SHEET, September 30th, 1936.

LIABILITIES.				ASSETS.			
	£	s.	d.		£	s.	d.
Sundry Creditors ..			50 0 0	Cash at Bankers ..			57 16 1
Capital Account—				Investments at Cost—			
Balance at September 30th, 1935 ..	12,412	19	2	£9,150 3½ per cent. Conversion Stock ..	8,323	9	2
Add—				£900 4 per cent. Funding Loan, 1960-90 ..	676	18	6
Legacies ..	152	10	0	£2,200 4 per cent. Consolidated Stock ..	2,084	12	3
Life Subscriptions ..	78	15	0	£500 India 3½ per cent. Stock ..	533	9	0
Donations ..	198	11	6	£484 17s. 4d. Local Loans 3 per cent. Stock ..	466	0	0
Surplus on Sale of Investments ..	64	18	0	£200 London County 3 per cent. Consolidated Stock ..	171	16	0
Revenue Account—				£204 0s. 10d. Commonwealth of Australia 3½ per cent. Registered Stock, 1936-37 ..	192	1	9
Balance for 1936 ..	96	2	7	£208 10s. New Zealand 4½ per cent. Stock, 1948-58 ..	200	16	0
			13,003 16 3	£300 London & North Eastern Railway 4 per cent. 1st Preference Stock ..	246	17	6
				£100 Society of Incorporated Accountants 5 per cent. Debentures (Gifts) ..	100	0	0
					12,906	0	2
				Sir James Martin Memorial Fund—			
				£1,000 3 per cent. Local Loans ..	965	14	6
				£1,000 2½ per cent. Guaranteed Stock ..	862	12	0
				£1,500 2½ per cent. Consolidated Stock ..	1,265	15	6
				£545 16s. 4d. 2½ per cent. Annuities ..	452	14	9
					3,546	16	9
Sir James Martin Memorial Fund ..	3,546	16	9	Edith Sendell Fund—			
In memoriam "Edith Sendell" Fund ..	500	0	0	£432 0s. 9d. 4 per cent. Consolidated Stock ..	500	0	0
				(Market value of all Securities at September 30th, 1936, £19,427 6s. 8d.)			
			£17,100 13 0				£17,100 13 0

HENRY J. BURGESS, *Chairman of Trustees.*

I have examined the above accounts, together with the Books and Vouchers, and find the same to be correctly stated. I have also verified the securities of the Fund.

61, West Smithfield, London, E.C.
November 12th, 1936.

W. SOUTHWOOD SMITH,
*Incorporated Accountant,
Hon. Auditor.*

SOME PRACTICAL POINTS IN AUDITING.

A LECTURE delivered at Cardiff to a Joint Meeting of the Incorporated Accountants' District Societies of South Wales and Monmouthshire, Swansea, and West of England by

MR. WALTER HOLMAN, F.S.A.A.,

VICE-PRESIDENT OF THE SOCIETY OF INCORPORATED
ACCOUNTANTS AND AUDITORS.

MR. HOLMAN said: I make no apology for speaking to you to-night on what are, after all, the fundamentals of our professional work. I know that in these days professional practice covers a wide range of functions and offices: secretarial work, business organisation and management, taxation, insolvency, trusteeships of various kinds, and some of them seem far removed from auditing, yet they all arise or should arise therefrom, and a sound accountancy practice is one which as its core has a strong nucleus of audits, and the more varied they are the better.

I assume that for the most part I am speaking to practising members rather than to students, and while, therefore, my remarks will be in the nature of a return to first principles, I shall assume that you are all familiar with the rules governing the routine of audit work and with the statutory and case law which prescribe the rights, duties and liabilities of auditors.

I expect you share the experience of many auditors that books are not always balanced before the audit is commenced, nor are completed accounts always prepared in advance; in large numbers of cases the auditors themselves balance the books and prepare accounts and so combine the dual functions of accountants and auditors. This state of things has its advantages as well as its disadvantages. The carrying out of the detailed accountancy work often gives a more intimate knowledge of the business, and greater confidence in the results so ascertained, than may be obtained from the most thorough and complete audit, and the opportunity afforded of drafting the accounts is valuable for demonstrating how informative accounts can be made. But it is possible in the mass of detailed accountancy work to miss even some of the elementary duties of an auditor and, for example, to leave unverified some of the assets, a duty which, in an audit pure and simple, would constitute the auditor's most obvious task.

PREPARATION OF ACCOUNTS AND PARTIAL AUDITS.

I can imagine that someone might wish to interrupt at this point to say that where auditors prepare accounts for a private concern, there is no statutory obligation to complete the audit. My reply to such a remark would be that in these days it is unsafe and unwise to proceed merely on the basis of statutory obligation. An accountant cannot control the use to which accounts prepared by him are put. Although prepared for a specific and limited purpose, they may subsequently be used for purposes quite different. Or they may have been prepared under instructions limiting the scope of the work to be done, as was the case in *Apfel v. Annan Deater & Co.*, in which the accountants were sued because, in the course of preparing accounts for taxation purposes, they failed to discover defalcations which a more complete examination of the books would have revealed. The defence, which succeeded, was that the accountants had been employed as such and not as auditors, and that this had been made clear in the certificate given and in the account rendered for the work. The case emphasises the importance, in cases where there is no statutory definition

of our duties, of obtaining written instructions for the work required to be done, and when the work has been done in accordance with those instructions, of giving a certificate or report on the accounts themselves defining the work done and so limiting the liability thereto.

But I think something more needs to be said. There is a lurking danger in limited instructions and in partial examinations of figures, the danger that the distinctions which we read into such instructions may not be appreciated or intended by those from whom we receive them, and there is much to be said for those who make it a rule to apply audit procedure to private as well as to company businesses and concerns. When I use the term audit procedure I want to make it clear that this does not necessarily imply a complete check of all figures or a complete vouching of all entries. An imaginative and discriminating test is often of greater value than conscientious and painstaking, but uninspired checking, and I would suggest as a safe course the subjecting of all books and figures to such tests as will enable certificates to be given without fear of future consequences. I know that the work done must have some relation to the fee to be charged and that it is unreasonable to expect a professional man to do a complete audit for a fee which would not adequately remunerate him, but I do suggest that no professional man can afford to certify figures unless he has taken all reasonable steps to verify them, and if he has undertaken the work he must carry it out properly, regardless of the fee attaching to it.

I have said that the preparation of accounts by accountants who are also the auditors gives opportunities for demonstrating how informative accounts can be made. I want to amplify that statement in the light of the complaint frequently made that published accounts are distinguished by what they conceal rather than by what they reveal. The criticism has been amply justified in the past, and in spite of the undoubted improvement which has occurred in recent years, it could still be made in large numbers of cases, and in the absence of any statutory provisions in the Companies Act defining the contents of the profit and loss accounts which directors must lay before companies in general meeting, a policy of concealment can be challenged only if the process of condensation is carried to the point when it becomes deliberately misleading. This was the important point to auditors in the *Royal Mail Steam Packet Co.* case, in which the chairman of the company was charged with issuing false annual reports to the shareholders with intent to deceive, and the auditor was charged with aiding and abetting. They were both acquitted of the charge, but the Chairman was convicted of publishing a prospectus which he knew to be false in a material particular with intent to deceive.

Now the fact that the charge against the auditor failed does not mean that the accounts as published were not open to objection. The auditor was not satisfied with them as submitted to him, and he insisted on a qualification in the wording of the Profit and Loss Account by the insertion of the words "adjustment of taxation reserves" to indicate the presence of abnormal items. I think it is fair to assume from this that had the accounts been prepared by the auditor, they would have been stated differently. However that may be, the Presidents of the Society and the Institute gave evidence in his support and candid critics might find in that fact justification for thinking that the accountancy profession has for long acquiesced in the policy of concealment.

INFORMATIVE ACCOUNTS.

In 1932 a committee of the Council of the Society reported in favour of amendment of the Companies Act

by laying down principles to govern the preparation of profit and loss accounts for publication, and the views then expressed are now shared by many responsible members of the profession, who feel that the practice of the profession as a whole should be in line with more enlightened views. Pending the strengthening of the law, however, individual auditors can do something by using their influence in favour of the issue of really informative accounts and by setting an example where the preparation of accounts is left in their hands. For preparation must precede legislation if the latter is to be effective, and accountants can be useful agents in educating business opinion in the direction indicated.

In order that this educational work may not arouse hostility, it is desirable and, indeed, necessary for us to try to understand the origin of the policy of secretiveness which has prevailed in the past, and to clarify our minds as to the alteration and development required. For myself, I do not believe that secretiveness was designed as a cloak for dishonesty, although it is true that dishonesty has found a useful cloak in secretiveness. I suggest to you that the policy of concealment is the expression of a national characteristic which most of us share and which has its good as well as its bad points. As a nation we are reserved, given to under rather than to over-statement, disinclined to discuss our more intimate concerns with our fellows, and unwilling that our neighbours should know more of our private affairs than we choose to tell them. This sturdy independence and aloofness accounts for the fact that the tendencies to amalgamations and to all that is implied in the word rationalisation were seen in Germany and in America long before they appeared in this country. It kept us a nation of shopkeepers by delaying the developments which became possible with the introduction of limited liability, and it accounts for the fact that even yet large and flourishing businesses are still retained in the control of private individuals. Most of us probably could cite cases of such, and we know from experience the admirable qualities combined with a passion for secrecy which they represent.

But while secrecy is an understandable and a legitimate attitude in such cases, it ceases to be so when outsiders are allowed to subscribe capital and purchase an interest in the business. The business then belongs to the whole body of shareholders, who are entitled to full and accurate knowledge of their own business, and the directors are really trustees whose duty it is to account for their stewardship to those whom they represent and by whom they are appointed. My suggestion is that the paucity of information in published accounts, against which complaint is rightly made, is a carry-over from the days of individual private ownership, and represents the expression, in a field where it is out of place, one of our national characteristics; I am confirmed in this theory by some accounts of a company functioning in America, a country which does not share our national characteristics of reserve and secretiveness. These accounts and the report of the directors accompanying them are set out with a wealth of detail and information which could not be paralleled in this country.

You will realise that the difficulties to be faced by us are, as I see them, partly psychological, and from what I have said you will gather my idea of the approach to their solution, but the ostensible reason for secrecy must not be overlooked. The fear of disclosing to competitors information which might be used to their advantage, and consequently to the detriment of the company by which the information is disclosed, may or may not be real, but it surely need have no foundation. It is not suggested that the full detailed accounts prepared for

the directors should be sent to shareholders: it would clearly be unwise, for example, in every case to publish the information contained in manufacturing and trading accounts, and such information is not necessary for a correct appreciation of the result of the company's operations. But it is surely not unreasonable to suggest that the profit and loss account laid before members, however summarised its information, "should show the true profit or loss for the period covered by such accounts; that any debits or credits which are abnormal in character or extraneous in their nature to the ordinary transactions of the company, together with any reserves from a previous period no longer required, should be stated separately." I have been quoting from the recommendations contained in the report to the Council to which I have already referred, and I suggest that they represent a standard to the attainment of which members of the Society may well aim themselves and use their influence to induce others to aim also.

DISCLOSURE OF RESERVES.

You will have noticed the words "reserves from a previous period no longer required," and this raises the whole question of reserves and their disclosure. A critic of accountants and accounts could choose no better ground on which to attack the inconsistencies of terminology and of treatment of which we are guilty. Frequently we use the same word to denote provision for the replacement of an asset, for meeting a known or an unknown liability, for meeting future known liabilities or for possible future liabilities or losses. And we are no more consistent in our treatment. Sometimes we use realised capital profits to write down assets, so hiding them, and at other times we retain them in the balance sheet as separate items so that they are disclosed all the time. We use revenue profits in similar differing ways. We write down intangible assets out of profits and we are acting in accordance with the true spirit of professional practice: we write down tangible assets out of profits and we are creating secret reserves and assisting in a process by which a balance sheet ceases to show a true and correct view of the company's affairs. Incidentally, most amounts written off fixed assets become secret reserves, however fully they may be disclosed at the time of creation, and by the time they become secret they may have ceased to be reserves at all by the operation of outside circumstances.

And therein, I think, lies the reply to our critics. Industrial activity is not static; it is changing all the time, and accounts designed to reflect the results and tendencies of this ever-changing activity can only be an approximation of the actual position at a particular point of time. Our duty as auditors is to see that such approximation is as accurate as possible, and the bewildering variety of conditions and circumstances make differences in method of treatment inevitable.

THE VALUATION OF ASSETS.

The valuation of assets which is involved in obtaining an approximation of the position of a business constitutes the most difficult and onerous of an auditor's duties, and I think it is helpful to endeavour to distinguish between fixed assets, that is, assets of whatever nature by which a business is carried on, as distinct from current or floating assets with which it is carried on. It is the fluctuations in the values of the floating assets, subject, of course, to the floating or current liabilities, which mainly determine revenue profits or losses, and their valuation is therefore of greater importance than that of the fixed assets provided the latter is consistent from period to period.

Fixed Assets.

Fixed assets are usually included at book values, which may represent cost, or which may have been written up or down, and which in any case may have been affected so much by outside circumstances that they may have no relation whatever to actual values. The fact is, of course, that there is only one ultimate standard of valuation of most fixed assets and that is earning capacity, but the practical difficulty with which we should immediately be faced if we attempted to adopt that as a method of valuation for balance sheet purposes would be that it is no more permanent than the orthodox method of book valuation, and the same would apply to valuations on the basis of realisability or of replaceability. There must be few balance sheets whose fixed assets do not represent over or under-valuations, undisclosed or secret reserves or liabilities, but since they are fixed and are held for the purposes of carrying on the business, we are justified, provided the treatment is consistent from period to period, in accepting such valuations.

By consistency of treatment I mean the adoption of the same method of valuation. Where fixed assets are of a wasting nature provision should, of course, be made for depreciation and obsolescence, and it is the auditor's duty to see that this is done. Such provision involves a charge against profits, and therefore fluctuations in fixed assets do to this extent affect results in the same way as fluctuations in floating assets, but with this qualification it can be said that revenue profits and losses are mainly determined by fluctuations in floating assets.

The distinction I have drawn between valuations of fixed and floating assets can be extended also to reserves created in respect of them, but let me say at once that the creation of reserves, whether in respect of fixed or floating assets, is not only wise, it is imperative. It has been said that the function of capital is to disappear, and it is, I think, true that no form of business capital, however fixed, can be regarded as permanent. Provision must, therefore, be made for its renewal or replacement, and the business which does not make reserves will in time have no business. I say this because the differences of opinion within the profession in regard to the existence and particularly the disclosure of reserves is calculated to create the impression that there is something inherently objectionable in reserves, and such an impression is misleading and harmful.

From what I have already said about fixed assets you will be prepared for me to say that I am much more concerned about the creation of reserves in respect of them than about their disclosure, and I need only add that a reserve having once been made in respect of a fixed asset should not be reclaimed for revenue purposes except under very exceptional circumstances, and if so reclaimed, it should be the subject of definite and unambiguous disclosure.

Floating Assets.

So far I have been dealing exclusively with fixed assets and reserves on fixed assets. I want now to deal with current or floating assets, and it may prevent misunderstanding if I say that no exclusive definition of fixed and floating can be given. Assets which are fixed in one business may be floating in another, and vice versa, and the basis of valuation will naturally differ according to the category in which each falls.

You will realise that I am dealing to-night with broad principles rather than with their detailed application, because the latter can be found in the many admirable text books which are now available for the student, and I am therefore passing over assets which can be valued with precision and accuracy. Bills, cash, book debts,

forward payments, marketable investments, all such present no difficulty in theory, whatever may be the problems attaching to them in practice, and the auditor may feel confidence in his own capacity to test the valuations submitted to him. But the position is different when valuations are concerned of work in progress and the many forms and stages of materials which are included in the words "stores and stock." Here the auditor is faced with the impossibility of himself verifying all items and with technical difficulties, and after he has done all that can be done in the way of testing and checking schedules and calculations and prices, he will still in all probability be compelled to admit that his justification in signing the balance sheet so far as these items are concerned lies in the certificates he has been able to obtain from officials, whether responsible or irresponsible. And the galling part of it all is that these are the figures by which profits or losses are largely determined and in which, therefore, manipulation, whether by way of inflation or deflation, can most effectively and securely take place.

The auditor, and incidentally also the Revenue authorities, have this safeguard that errors, whether accidental or intentional, affect the figures for the following period, and they represent, therefore, merely anticipations or postponements of profits or losses, but to the extent that they are wrong they are a reflection on the usefulness and the value of audits. For this reason I suggest that an auditor is not limited to the actual accounts with which he may be dealing at a particular time. A continuous preparation of statistical analyses of the accounts for each succeeding period: regular comparison, not only of the actual figures, but of the percentages they represent; records of circumstances and conditions affecting output and stock turnover; the comparison of results with cost accounts if such exist; these are indications of some of the means by which an auditor can often apply an indirect test on results and sometimes obtain unexpected confirmation or the reverse of the valuations of floating assets. So far as the basis of valuation is concerned, I only want to say that a useful test of the values placed on goods, in whatever form or stage they may exist at a balancing date, is whether they can be sold or used in the succeeding period so as to yield the normal rate of profit for the particular business. In order to avoid possible misunderstanding here, let me emphasise that I am dealing not with a basis, but with a test of valuation, and my remarks must not be interpreted as justifying a writing up of stock so long as a normal profit in the next period can be shown.

VALUATION OF LIABILITIES.

The valuation of current liabilities is no less important than that of current assets, and the *Pepper Pool* case came as a useful reminder to us as auditors of the necessity of drawing attention to the existence of contingent liabilities. You will remember that in the *Pepper* case directors were charged and convicted of issuing a false prospectus because abnormally large forward contracts which existed at the time of issue were not disclosed. The false document was not a balance sheet and the auditor was not involved, but the principle is one which concerns us because of the frequency with which the existence of contingent liabilities is met. To what extent actual provision for such should be made in accounts, and how and when disclosure on the face of the accounts becomes necessary, are matters which must be left to the discretion and judgment of the auditor, but the *Pepper* case does emphasise the necessity of disclosing abnormal contingencies even if normal instances may be assumed to exist.

INVESTMENTS IN SUBSIDIARY COMPANIES.

I want now to deal in some detail with investments in subsidiary companies, whether in the form of shares or loans or both. As you know, these must now be shown separately in the balance sheet, and the question at once arises whether they are to be regarded and treated as fixed or as floating assets. Generally speaking, such assets are acquired for the purposes of the business and not for re-sale, and they therefore come within the definition of fixed assets; on the other hand, these investments represent assets which are floating as well as fixed, and since possession of control gives the holding company power to determine values and influence results, it seems to me that contact with reality can only be maintained if such investments are treated for all purposes as floating assets.

The difficulty of laying down more than general principles for the valuation of investments in subsidiary companies will be manifest when the diversity of conditions is considered. Where a parent company holds 100 per cent. of the subsidiary the position is comparatively easy, but it becomes increasingly complicated as the holding decreases and the control lessens, and in all cases, even the most favourable, the subsidiary represents a separate entity, trading separately even if not independently. Again, the holding company may itself be a trading concern functioning either through or in competition with its subsidiaries, and the policy of the group as a whole may dictate an artificial distribution of results by means of transfers within the group. These are only indications of the problems which confront an auditor of a holding company in approaching the valuation of investments in subsidiaries—problems which, of course, do not exist for the auditor of the subsidiary because the fact that the company is one of a group does not affect his position or duties.

Now the auditor of a holding company is not concerned with policy; that is the responsibility of the management, but a knowledge of the aim and purpose of the group will be of assistance in considering the accounts of subsidiaries if he is not himself the auditor of them. His first duty then is to examine the accounts of the subsidiaries, and, if possible, not the published accounts only, but the full detailed accounts as prepared for the directors, together with full information on material points. In the case of a new acquisition he will review the extent of the holding acquired compared with the total holding and the cost of the acquisition compared with its intrinsic value. He will then see that all dividends declared have been received and have been properly dealt with, and if any dividends represent the distribution of profits earned before acquisition, and therefore included in the purchase price, he will see that they are deducted from the purchase price and not taken to the credit of revenue. If, after what I may call these routine matters have been dealt with, the auditor is satisfied that the value at which the investment stands in the books is fair and that a reasonable distribution of profit has been made, then no further question arises, but supposing losses have been made resulting in a depreciation in the value of the holding, or supposing a depreciation of value has taken place through some other cause, provision for that loss should be made in the profit and loss account and the asset written down accordingly, and failure to make such provision would be a proper subject for a qualification in the auditor's report.

But supposing profits have been earned but not distributed, resulting in an appreciation of the value of the holding, or supposing an appreciation of value has taken place through some other cause, ought not the same principle to be applied, the asset written up and the

increment credited to profit and loss account? To do so would be to depart from the basis of valuation of other floating assets, viz., cost or market price, whichever is the lower. And the reason for this apparent inconsistency will be clear to you. So far as the holding company is concerned, the profit earned by subsidiaries is not realised until it is distributed in the form of dividends and to anticipate such distribution would be as unsound as to write up stock because of a rise in price since purchase.

But supposing some subsidiaries have made losses and some profits, and no provision has been made for the former in view of the latter? Consistency demands that provision should be made for the losses irrespective of the profits and it may well be that an auditor would feel bound to report on failure to do so, but the relationship between the company and its subsidiaries might well be such that it would be reasonable and fair to treat all the investments in subsidiaries as one unit and to set-off losses against profits. Support for such an attitude is to be found in the Companies Act. Sect. 126 provides that a statement must be annexed to the balance sheet of a holding company stating how profits and/or losses of subsidiaries have been dealt with in the accounts of either and it is specifically provided that where there are two or more subsidiaries it is the aggregate profits and losses which are referred to.

UNDISTRIBUTED PROFITS OF SUBSIDIARIES.

There remains a further point to be considered. By the suggested application of the principle with which I have been dealing, profits earned by subsidiaries but not distributed remain hidden from shareholders, who are thus deprived of information which is essential to a fair valuation of their holdings. Now, while this leaves a door open for manipulation and gives opportunity for misleading shareholders, it must be remembered that the holder of shares in a holding company is really a shareholder in a group of companies, and the balance sheet of any one cannot be expected to convey the results of the whole. Some holding companies have attempted to meet the situation by issuing to shareholders, in addition to the legal balance sheet, a consolidated balance sheet, or what is in reality a summary of the assets and liabilities of the group; others have issued a summary of the subsidiaries as a whole, apart from the holding company, but either of these methods is open to the objections that they can convey very little to the average shareholder and that a close comparison with the corresponding figures of the previous period may be necessary in order to reveal the actual profit earned by the group during the year. And, after all, that is the essential thing to know. I have said earlier that the ultimate standard of valuation of a company's assets is their earning capacity and that is the basis by which prices of shares are fixed and judged by those who deal in shares. So there has arisen in America the practice of publishing summaries of the income and surplus of whole groups, subsidiaries as well as parent company, and the practice has been adopted here by some few progressive companies. It is entirely outside the scope of this paper to deal with the principles to be followed in preparing such consolidated statements. Whatever the future may have in store, at the present time auditors in this country are not directly concerned with consolidated statements, but in some companies in America those published are certified by the auditors and it may well be that when the Companies Act is amended our duties may be extended in that direction. In the meantime, I cannot do better than close where I started, by repeating that we, as auditors, can and should use our influence to the end that the accounts issued to shareholders which bear our names should be as full and informative as shareholders are entitled to expect.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to and promotions in the Membership of the Society have been completed since our October issue :—

ASSOCIATES TO FELLOWS.

- BEAL, EDWARD, 27, Portland Terrace, Southampton, Practising Accountant.
- ETHERIDGE, REGINALD ARTHUR (Woolley & Waldron), Blue Peter House, 8 & 10, Portland Terrace, Southampton, Practising Accountant.
- IVISON, JOHN ROBERT (E. J. White & Co.), Advance Buildings, Surtees Street, West Hartlepool, Practising Accountant.
- MALYON, ERNEST CHARLES (Pawley & Malyon), Finsbury Court, Finsbury Pavement, London, E.C.2, Practising Accountant.
- PARKER, FREDERIC NORMAN (Thomas May & Co.), Allen House, Newarke Street, Leicester, Practising Accountant.
- PAWLEY, TOM HENRY (Pawley & Malyon), Finsbury Court, Finsbury Pavement, London, E.C.2, Practising Accountant.
- SMOUT, PERCY LIBBIS, M.C., 36, New Bond Street, London, W.1, Practising Accountant.
- THOMAS, OWEN IVOR (Muir, Moody & Co.), 20, Newgate Street, London, E.C.1, Practising Accountant.
- TONGUE, GEORGE WILLIAM, Borough Treasurer, Town Hall, Leyton, London, E.10.
- TUSTAIN, COLIN MAURICE (Thomas May & Co.), Allen House, Newarke Street, Leicester, Practising Accountant.
- WEEKS, HENRY JAMES, 23, Portland Terrace, Southampton, Practising Accountant.

ASSOCIATES.

- BRACKENRIDGE, ADAM BROWNIE, City Chamberlain's Department, Town House, Aberdeen.
- BRADLEY, GEORGE THOMAS NORMAN, with Armitage & Norton, Station Street Buildings, Huddersfield.
- BROWN, DAVID LUMSDEN, formerly with William A. J. Ling & Co., 3 and 4, Great Winchester Street, London, E.C.2.
- CARROLL, RICHARD VALENTINE, with William A. Deevy & Co., 29, Barronstrand Street, Waterford.
- CHADWICK, WILLIAM HUGH, Borough Treasurer's Department, Town Hall, Greenwich, London, S.E.10.
- GREGORY, GEOFFREY WILLIAM, with John Gordon, Harrison, Taylor & Co., 6, Raglan Street, Harrogate.
- HARRIS, ERIC WALTER, with Stoy, Hayward & Co., 103, Cannon Street, London, E.C.4.
- JOHNSON, FREDERICK, with J. C. Carr Braint, General Buildings, King Street and Wellington Street, Leicester.
- KEALEY, CHARLES STANLEY GERARD, with Charles Wakeling, 8, Serjeants' Inn, Temple, London, E.C.4.
- LIPMAN, ARTHUR MAITLAND, formerly with Joseph W. Shepherd, 78, King Street, Manchester.
- PICOT, LESLIE ALEXANDER, with Alex. E. Picot & Co., 26, Hill Street, Jersey, C.I.
- RASINI, CHARLES LUIGI DOMENICO, with W. F. A. Cooper, 68, Aldersgate Street, London, E.C.1.
- ROBINSON, FRANK, with J. Herbert Haley, Son & Co., 29, Tytrel Street, Bradford.
- STARKIE, EDWARD GORDON (Starkie & Naylor), Greek Street Chambers, Leeds, 1, Practising Accountant.

- STEEL, CHARLES STANLEY (Wright, Fairbrother & Steel), 34 & 36, Gresham Street, London, E.C.2, Practising Accountant.
- WILLIAMS, FREDERICK JOHN, with White & Pawley, 6, Sussex Terrace, Princess Square, Plymouth.

FORTHCOMING EVENTS.

- 1936.
- Dec. 1st. *North Staffordshire District Society.* At Hanley, at 6.30 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "Methods of Study."
- Dec. 2nd. *Birmingham District Society.* At Birmingham. Annual Dinner.
- Leicester District Society.* At Leicester at 6 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "The Accountancy Provisions of the Companies Act, 1929."
- Liverpool District Society.* At Chester at 6.45 p.m. Lecture by Mr. J. Boucher, F.S.A.A., on "Municipal Cost Accounts."
- Sheffield District Society.* At Sheffield at 6.30 p.m. Lecture by Mr. J. Gibson Jarvie, on "Money and Credit."
- South Wales and Monmouthshire District Society.* At Cardiff. Topic Meeting (Students).
- Dec. 3rd. *Burnley Students' Section.* At Burnley at 7.30 p.m. Short Lectures by Mr. J. Campbell, F.S.A.A., Mr. P. F. Pierce, A.S.A.A., and Mr. Tom Sharratt.
- Nottingham, Derby and Lincoln District Society.* At Nottingham, at 6.30 p.m. Lecture by Mr. H. A. R. J. Wilson, F.C.A., F.S.A.A., on "Income Tax."
- Dec. 4th. *Cumberland and Westmorland District Society.* At Carlisle. Lecture by Mr. Percy H. Walker, F.S.A.A., on "The Control of Stocks." (Students' Meeting.)
- Newcastle-upon-Tyne District Society.* At Newcastle. Annual Dinner.
- Yorkshire District Society.* At Leeds. Annual Dinner.
- Dec. 7th. *Belfast District Society.* At Belfast, at 1 p.m. Luncheon.
- West of England District Society.* At Bristol, at 6 p.m. Lecture by Mr. E. Westby-Nunn, B.A., LL.B., on "Trusts and Trust Accounts."
- Dec. 8th. *London and District Society.* At Incorporated Accountants' Hall, at 7.15 p.m. Dinner.
- South Wales and Monmouthshire District Society.* At Cardiff. Lecture by Mr. E. Westby-Nunn, B.A., LL.B., on "Executorship Law and Executorship Accounts."
- Yorkshire District Society.* At Leeds at 6.30 p.m. Lecture by Mr. O. Griffiths, M.A., LL.B., on "Bills of Exchange with special reference to Bankers and Liability on Cheques."
- Dec. 9th. *Devon and Cornwall District Society.* At Plymouth at 6.30 p.m. Lecture by Mr. E. Westby-Nunn, B.A., LL.B., on "Executorship Law and Accounts."
- Liverpool District Society.* At Liverpool at 6.15 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Stock Exchange Practice and Procedure."

Sheffield District Society. At Sheffield, at 6.30 p.m. Lecture by Mr. O. Griffiths, M.A., LL.B., on "Mercantile Law."

Dec. 10th. *Birmingham District Society.* At Birmingham at 6.30 p.m. Lecture by Mr. S. W. Rowland, LL.B., F.C.A., on "The Criticism of Published Accounts from the Financial Point of View."

Hull District Society. At Hull at 7.15 p.m. Lecture by Mr. O. Griffiths, M.A., LL.B., on "Misrepresentation and Mistake in Relation to Contracts."

North Lancashire District Society. At Preston at 7.30 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Matters connected with Public Issues of Capital."

Dec. 11th. *Manchester District Society.* At Manchester at 6.15 p.m. Lecture by Mr. W. J. Back, A.S.A.A., on "Income Tax." Students' Meeting.

South of England District Society. Bournemouth Section. At Bournemouth at 7.15 p.m. Members' Papers.

South Wales and Monmouthshire District Society. At Newport (Students), Papers on "The Stock Exchange," by Mr. G. A. H. Oliver, and "Bills of Exchange," by Mr. A. D. G. Jordan.

Dec. 14th. *Newcastle District Society.* At Newcastle at 7 p.m. Lecture by Dr. W. H. Coates, LL.B., on "The American Experiment."

At Middlesbrough at 7 p.m. Lecture by Mr. A. Duxbury on "The Art of Public Speaking."

South Wales and Monmouthshire District Society. At Cardiff (Students), Papers by Mr. G. E. Davies, on "Recent Income Tax Cases"; and by Mr. V. G. Fradd on "Multiple Cost Accounts."

Dec. 15th. *Newcastle District Society.* At Newcastle at 6.30 p.m. Lecture by Mr. A. Duxbury, on "The Art of Public Speaking."

Dec. 16th. *Nottingham, Derby and Lincolnshire District Society.* At Nottingham at 6.30 p.m. Lecture by Mr. F. A. Roberts, F.S.A.A., on "Defalcation and Falsification of Accounts."

Swansea and South-West Wales District Society. At Swansea at 6.30 p.m. Lecture by Mr. H. Dixon Williams, F.S.A.A., on "Some Points on Colliery Auditing and Accounts."

Dec. 17th. *Liverpool District Society.* At Liverpool at 6.15 p.m. Lecture by Mr. C. A. Sales, LL.B., F.S.A.A., on "The Accounts of Holding Companies."

Dec. 18th. *Devon and Cornwall District Society.* At Plymouth at 7.30 p.m. Students' Evening.

East Anglian District Society. At Norwich, at 7.30 p.m. Lecture by Mr. P. Taggart, F.S.A.A., on "Profits and Reserves."

Hull District Society. At Hull. Annual Dance.

North Lancashire District Society. At Preston at 7.30 p.m. Lecture by Mr. C. A. Sales, LL.B., F.S.A.A., on "Accounts of Holding Companies."

Sheffield District Society. At Sheffield. Students' Dance.

Society of Incorporated Accountants in Ireland

ANNUAL DINNER

The Annual Dinner of the Society of Incorporated Accountants in Ireland was held at the Royal Hibernian Hotel, Dublin, on October 29th. Mr. A. H. Walkey (President of the Irish Branch) occupied the chair, and amongst those present were the Lord Mayor of Dublin, (Alderman Alfred Byrne), Mr. R. Wilson Bartlett (President, Society of Incorporated Accountants and Auditors), Mr. Justice Meredith, Mr. John O'Neill (President, Dublin Chamber of Commerce), Mr. W. O'Brien (Chairman, Revenue Commissioners), Mr. M. E. Knight (President, Incorporated Law Society of Ireland), Mr. Arthur R. Ormsby (Chairman, Dublin Society of Chartered Accountants), Mr. A. A. Garrett, M.B.E. (Secretary, Society of Incorporated Accountants and Auditors), Mr. R. F. Browne (Chairman, Electricity Supply Board), Mr. Thomas Goodall (President, London Association of Certified Accountants), Dr. James Bell, Sc.D., Mr. W. Edmiston Crawford (Secretary, Institute of Chartered Accountants in Ireland), Mr. Thomas Adderley (Examiner, High Court of Justice), Mr. J. S. White and Mr. H. McMillan (President and Secretary, Incorporated Accountants' Belfast and District Society), Mr. C. C. McElligott (Inspector of Taxes), Mr. J. D. Thompson (Vice-President) and Mr. A. J. Walkey (Hon. Secretary), Society of Incorporated Accountants in Ireland; Mr. J. H. Allen, Mr. E. A. Anderson, Mr. James Baird, Mr. K. P. Barry, Mr. J. H. Barton, Mr. W. H. Baskin, Mr. T. R. Beddy, Mr. Mervyn Bell, Mr. Robert Bell, Mr. Thomas Bell, Mr. R. N. Bolton, Mr. D. T. Boyd, Mr. Samuel Boyle, Mr. John Brown, Mr. A. F. Buckley, Mr. W. M. Budd, Mr. Ernest Burns, Mr. F. M. Callow, Mr. C. W. Chambers, Mr. V. Coe, Mr. T. J. Coulson, Mr. Jack Cowle, Mr. J. P. G. Coyle, Mr. John Curran, Mr. P. G. Dardis, M.A., Mr. A. D. Davidson, Mr. P. J. Dempsey, Mr. J. G. Dowling, Mr. F. G. Stokes Dunbar, Mr. J. J. Ffrench, Mr. S. O. Forster, Mr. A. P. Gillespie, Mr. A. M. Grant, Mr. John Griffin, Mr. Edmund Hanna, Mr. V. E. Hanna, Mr. Robert Irwin, Mr. William Keith, Mr. J. Kelly, Mr. W. A. Kenny, Mr. D. J. Kidney, Mr. R. A. Kidney, Mr. R. J. Kidney, Mr. W. D. Leary, Mr. John Love, Mr. John Mackie, Mr. A. J. Magennis, M.Sc., Mr. L. A. Mathews, Mr. T. J. Morrison, Mr. H. M. Murphy, Mr. P. McGann, Mr. Robert McCullagh, Mr. William Noble, Mr. John O'Brien, Mr. G. J. O'Callaghan, B.Com., Mr. J. R. O'Donnell, Dr. P. J. O'Dowd, Mr. R. T. Poole, Mr. P. J. Purtill, Mr. R. L. Reid, Mr. Thomas Ruddock, Professor T. A. Smiddy, M.A., Mr. Hugh Smith, Mr. Weber Smyth, Mr. G. L. Wheeler, Mr. J. T. White, and Mr. W. L. White.

The toast "Prosperity to Ireland" having been duly honoured,

THE PRESIDENT (Mr. A. H. Walkey) proposed "Trade, Industry and Commerce." He said they had honoured the toast "Prosperity to Ireland," which must be mainly, though not altogether, founded on the successful outcome of trade, industry and commerce. The membership of their Society was about equally divided between the Irish Free State and Northern Ireland, and as they had a large representation from the North, he proposed first to deal with conditions there. He was not going to bore them with statistics, but would merely quote a few facts to show that the business community in the North, with its usual energy and initiative, was taking full advantage of the improved conditions which it was experiencing in common with Great Britain. The export of linen for

the nine months to September 30th last was one-sixth greater than for either of the two similar periods in 1934 and 1935. In shipbuilding, Messrs. Harland & Wolff were responsible for the highest tonnage of the year 1935, and built one-fifth of the shipping launched in the British Isles. They were also second in the output of machinery. A new industry would be the manufacture of aircraft on a site convenient to the harbour, and an aerodrome for commercial use was now operating at Newtownards. The trade and commerce of the Port of Belfast for the year 1935 was a record, the tonnage being 6 per cent. greater than for 1934. The port and harbour authorities of Dublin and Belfast might be congratulated on the reciprocal visits which took place recently. It was all to the good that there should be this friendly interchange of views and ideas, with inspection of each other's properties, and they hoped that the result would be the provision of additional facilities and improvements at both ports. Turning to the Irish Free State, they had to deal with the subject of his toast from another angle. The policy of their present Government, inaugurated some four years ago, was now bearing fruit, in that many entirely new industries had been firmly established, the number of existing industries augmented, and very many concerns which operated as branches of cross-channel companies had now been registered as Irish Free State public or private companies. All this was within the knowledge of the company gathered there that evening, because professional accountants had played a very important part, both in the initial stages, and in the formation or flotation, and subsequent administration, of these new or nationalised trades and industries. It was a great satisfaction to accountants to be engaged in constructive work of this nature, and to feel that their professional knowledge and experience was being utilised in the establishment and development of these undertakings. It was too much to hope, or expect, that all these new concerns would be successful; some of them might not take firm root, others would fail to earn profits, or would fall out of the running for lack of experience and good management, but, so far as he was able to judge, a large proportion would succeed in fulfilling the expectations formed at their inception. Naturally, the greatest expansion had taken place in those industries which produced everyday necessities, and as output, competition, and experience of factory management increased, they might expect a reduction in prices. This also applied, in a limited degree, to certain commodities which were being imported subject to heavy duties, but were now being manufactured in increasing quantities in the Irish Free State. Last, but not least, he had to refer to agriculture. Without it, they could not at present, or perhaps ever, expect prosperity for the country, for its produce constituted the major portion of their exports, and those engaged in that industry supplied the main purchasing power for the products of other industries. They were glad, therefore, that the farmer was in a fair way to recover at least part of the ground that was lost some years ago, and they hoped that he would not only come out on the right side, but be assured of a fair return for the use he made of his land. They had got beyond the stage of "turning the corner," and he thought they had every reason to be satisfied with the progress that had been made, provided there was no relaxation of effort on the part of everyone who was concerned in the trade and industry of the country. (Applause.)

Mr. JOHN O'NEILL (President, Dublin Chamber of Commerce), who responded, said it was usual at a gathering of this kind to find some kind of grievance. The proper place for ventilating grievances seemed to be after dinner, but he could tell them that industry in the Irish Free

State to-day had no grievance. Some of them had a grievance against those who in the past ten years remained too conservative, and created difficulties for themselves and their organisations. It had taken a long time to recognise that they in the Free State did control their own destinies as regards trade, and the sympathy of every government department was with those who wished to carry on industry and trade in the Free State. They might have been slow getting off the mark, but within the last four years the biggest complaint was that they were moving too fast, but they were not moving too fast so long as there were men wanting employment. He could name at least six towns in the Free State that were almost derelict five years ago, but the situation, as they knew in their profession, was very different in those towns to-day. They in the Free State were supposed to have no bent for industry, and to be merely experimenting. That was untrue. There was intelligence, brains, and energy in their workers, if properly directed. Accountants were physicians to industry. Sometimes accountants cured their optimism, and sometimes their pessimism, but they could not cure their rheumatism. (Laughter.) In a sense, too, accountants were the beauty parlours of industry, because they were so very particular about their figures. He was sorry he was classed only as a citizen of the Free State, because that gathering represented Ireland and Ireland was a greater thing than any Free State boundary made by men.

Mr. JUSTICE MEREDITH proposing "The Society of Incorporated Accountants and Auditors," said he had no compunction in proposing their health notwithstanding the inquisitive eyes accountants turned on their financial secrets. It was said that one half of the world did not know how the other half lived, but he believed the accountants knew, but would not tell. (Laughter.) Perhaps it was just as well. The general public associated accountants with the winding-up of companies and bankruptcies, and to propose their health was like proposing the health of the Incorporated Society of Financial Undertakers. Their profession, however, had something more to do than the winding up of some companies and the dry-docking of others. They floated companies and launched projects. The idea in most concerns that an accountant should only be brought in—like the doctor—in *extremis*, was a mistake. As a judge, he had the greatest respect for their services. He could not remember a single case before him of a partnership matter, or the winding-up of a company, where the expedient of bringing in an accountant was anything but very helpful. In the great number of new undertakings and companies they were now forming in the Free State it was absolutely essential that the great mass of ability in the accountancy profession should be availed of to the very uttermost. That was his very deep conviction. (Applause.)

Mr. R. WILSON BARTLETT (President, Society of Incorporated Accountants and Auditors), who responded, said were it not for sympathy with his fellow guests, he should feel it his duty to make two responses to the toast—first to express his warm thanks to Mr. Justice Meredith for his kind and understanding speech in regard to the Society, and secondly, as a visitor to Dublin, where he received a most warm and sincere welcome not only from his colleagues in the South, but also from his colleagues in Northern Ireland. On such an occasion as the present his mind naturally went back to the Conference he had the privilege of attending in Dublin in 1911, when he, as a young member, received the warm hospitality and friendship of many colleagues, and one in particular he was happy to recall—that was the friendship of their President there that night. (Applause.) For some twenty years Mr. Walkey was Honorary Secretary of the Irish Branch,

and he could never forget the wonderful assistance both he and Mrs. Walkey rendered to himself and a few friends from the other side of the Channel at that time. He sometimes wondered whether the community in any country appreciated its obligations to the profession of the law. Samuel Johnson once said, "The law is the last result of human wisdom, acting upon human experience for the benefit of the public." On the other hand, he doubted if that was the philosophy of people fined fifteen shillings for an over-lengthy absence from their cars in Grafton Street, or for temporary attacks of colour blindness. They must all, however, recognise that the progress and stability of a state rested upon the independence, the learning, and integrity of the Bench, and the profession of accountancy was under no misapprehension as to the great services rendered by the law. Practising accountants often had to go to the Court for direction, and to solicitors and the Bar for advice, and he could freely say they were given good law, sound wisdom, and correct—though perhaps inadequate—remuneration. To-day, as the President of the Chamber of Commerce had stated, they were living in an age of startling changes. Legislation, public administration, and business could barely keep pace with the inevitable changes—scientific and otherwise—which confronted them in commerce and industry, no less than in social habits. Precision and knowledge were essential to business policy, for the complicated structure of modern business had banished the rule-of-thumb methods for ever. At the present time the commercial man must know where and how he stood; he must not merely think that he knew where he stood. The adjustment and agreement of claims for income-tax, for example, and compliance with the regulations governing trade and industry, demanded a new technique which could not be neglected. These requirements, as well as company finance and the organisation of business, demanded the thought, the special skill, and the high character which it was the function of the accountancy profession to furnish. And here might he endorse their President's own statement, that in some measure the work of the profession had been usefully connected with the economic improvement which had happily taken place, both in the Irish Free State and in Northern Ireland. Every country—owing to depressed conditions—had adopted some measure of economic regulation, tending towards a greater degree of self-sufficiency, and it was for them as accountants to recognise it. Even so, each country had something to give to others. For example, he would like to see a wider appreciation in Great Britain of the splendid tourist and sporting facilities in Ireland. If they would allow a visitor to make a suggestion, he thought a campaign of more concerted advertisements, setting forth the delights they had to offer, would bring a rich reward. For his own part, coming as he did from South Wales—with its unequalled supplies of steam and other varieties of coal—he could say that all the people in that area were extremely gratified when a new agreement was made last year between their respective Governments, whereby coal was allowed to be imported into the Irish Free State free of the duty and other complications which had previously restricted the flow of such an important commodity. As President, he could assure everyone present that their Society was alert to the repercussions of modern changes upon its own organisation. Its educational policy was to see that the student, in addition to obtaining professional experience prior to his examinations, was provided with facilities to study those subjects which it was necessary for him to master. In this work the Council was very greatly assisted by the Branches and District Societies, and he was more than pleased to have the opportunity to pay a tribute to them, and also to the

long and valuable work of their President, Mr. Herbert Walkey, in connection with the Irish Branch, previously as Honorary Secretary, and latterly as a member of the Council of the Society. For young qualified members, a short course was provided at Cambridge every other year, at which their friendly association with other members was most happily cultivated, during the intervals of more serious pursuits. In 1911 a very interesting and instructive conference was held in Dublin, and in June of next year they were looking forward to a similar function which was to be held in Belfast, following a very warm invitation which had been extended by their members in Northern Ireland. He knew it was the keen desire of the members in Belfast, and perhaps they would allow him to add, of members in all parts of Ireland, to make that conference a special occasion, and he felt sure that the hospitality and welcome which he had received that day again awaited them upon their next visit. (Applause.)

Mr. J. D. THOMPSON (Vice-President, Society of Incorporated Accountants in Ireland), proposing "Our Guests," said they had with them that night many distinguished guests representing the civic, professional, commercial, and industrial life of the community. To all they extended a very hearty welcome. They were particularly glad to welcome once again the Lord Mayor of Dublin. His genial presence and kindly smile were like a tonic. Wherever there was a good cause to be helped, or a kindly action to be done, there they would find the Lord Mayor. They were pleased to see many members of the legal profession, particularly Mr. Justice Meredith, whose decisions were always worthy of their highest consideration. The public bodies of Dublin and the Free State were well represented by Mr. John O'Neill, whom they had already heard, Mr. R. F. Browne, Chairman of the Electricity Supply Board, and many others representing various interests in the South. They were pleased also to have with them three very prominent officials of the Inland Revenue Department, in Mr. W. O'Brien, Chairman of Revenue Commissioners, and Mr. McElligott and Mr. McWilliams, Senior Inspectors. Coming to their own profession, they extended a hearty welcome to the President of the Parent Society, Mr. R. Wilson Bartlett, and to the Secretary, Mr. A. A. Garrett, whom they looked upon as old friends. They had also present Mr. Arthur R. Ormsby, Chairman of the Dublin Society of Chartered Accountants, and representatives of the Belfast and District Society and the London Association of Certified Accountants. Last, but not least, they gave a special welcome to their musical guests. Mr. Mervyn Bell, one of their members, had arranged the programme, and had been ably assisted by Mr. Irwin, Mr. McCullagh, and Mr. Cowle.

The LORD MAYOR OF DUBLIN (Alderman Alfred Byrne) responding, said he was very glad to be afforded an opportunity of extending a very hearty welcome to the visitors both from across the water and from across the Border. The President of the Branch had issued a note of warning, when he said that some industries would succeed, and some not so well managed would go to the wall. It was right that warning should be given. Some industries, like clothing and shoes, were now supplying the requirements of the Free State, and other competitors should not be allowed to come in and jeopardise the position of those who put their all into the initial undertakings. The advice of the accountancy profession had been very helpful in the past, and he was sure they could be of valuable assistance in the future in building up the industry of the country as a whole. While things were brightening up, he would not like the visitors to go away with the impression that everything was lovely in the garden. They had still very many unemployed, and a

slum problem to deal with in Dublin. They had hopes, however, that with the general improvement, the burdens of these people would be relieved. (Applause.)

Mr. M. E. KNIGHT (President, Incorporated Law Society of Ireland), who also responded, said no class in the community was more capable of assessing the services rendered to the country by the accountants than his own profession of the law, and on behalf of the solicitors he was glad to pay tribute to their worth. In particular he wished to pay tribute to the great ability and the high integrity with which they discharged all their duties. It had been his privilege to attend many such functions as this during his year of office, in which the spirit of good will and friendship dominated everything else. The thought often occurred to him, "Why cannot that spirit be translated to the community as a whole?" They had a great country, of which he hoped they all were proud. It had great potentialities, and he for one looked with optimism to the future. (Cheers.)

Mr. A. A. GARRETT, M.A. (Secretary, Society of Incorporated Accountants and Auditors), proposing the health of the President of the Branch, said their guests thoroughly enjoyed this function, presided over by Mr. Herbert Walkey, and he personally shared in the affection and regard in which Mr. Walkey was held by his professional friends in Ireland. He gave distinction to everything he undertook, and particularly to that night's function. On behalf of the visitors, he thanked him for his hospitality. They appreciated his genial and cordial welcome, and wished him—and if he might add, Mrs. Walkey—long life, health and happiness. Long might he live to serve the Society. (Applause.)

The President, responding, said he felt that he only fulfilled in his turn the duties which fell to the lot of the President of the Society in Ireland. To say this might appear over-modest on his part, but he did not think of anything beyond the Society itself, and the maintenance of the standard to which it had risen in Ireland, and which they hoped to maintain. (Applause.)

INCORPORATED ACCOUNTANTS' LONDON AND DISTRICT SOCIETY.

A dinner will be given at Incorporated Accountants' Hall, on Tuesday, December 8th next; Mr. Edward Baldry, the Chairman, will preside, and opportunity will be taken to entertain as guests of the Society gentlemen who have been good enough to deliver lectures and addresses in the past. Members are reminded that applications for tickets should be sent to Incorporated Accountants' Hall as soon as possible. One personal guest may be invited by each member.

"THE STATIST" AND GOLD BLOC DEVALUATION.

The Annual International Banking Section of *The Statist* which was issued last month, contains a lengthy article on the subject of the Gold Bloc devaluation and its effect upon international banking and international trade. The view is expressed that the devaluation of the Gold Bloc and the Three-Power understanding not to engage in currency depreciation will encourage more permanent stability in the exchange markets, and make for the resumption of international trade and banking operations, with a period of steadily rising commodity prices, expansion of credit, and increased profits. It is also pointed out that rising prices will assist in unfreezing international debts, with the possibility of the return to favour of long-term international lending. The fall of the Gold Bloc is, therefore, regarded as an important milestone in the history of international banking.

SIR JOSIAH STAMP ON CONTROLLING FACTORS IN THE ECONOMIC OUTLOOK.

On November 11, Sir Josiah Stamp, G.C.B., lectured on the above subject to a meeting in Sheffield, arranged by the local organisations of Incorporated Accountants, Chartered Accountants, Chartered Secretaries, and Bankers.

Lord Riverdale presided.

Sir Josiah, at the outset, remarked humorously that he was given to understand that the audience was not an ordinary or haphazard one, but rather "a hand-picked bunch." Therefore he was relieved from the necessity of being very elementary. In fact, he was told that his listeners were not exactly all economists, but they all knew enough about economics to jeer at those who were economists. (Laughter.)

In considering the controlling factors in economic life that lay ahead of them, there were very distinct classes of thought, although they were inter-related. The main forces and limitations which were likely to regulate economic affairs might conveniently be classified as monetary, political, technological, and natural.

He would take the monetary factors first, because at the moment he thought they were the key at any rate to the international situation, and that international situation had to be cleared up before we could expect any great change in the domestic situation. There was a considerable revival, which we might some day think amounted to a boom, in domestic conditions in a number of countries. We could only improve on the position by certain changes in the international field, and that had been locked by political barriers and bolts and bars which had their origin in monetary troubles.

A recent important event was the long-expected change in the French system. The French had at last made a break. Some people thought that if they had done it several years ago it might have saved France a good deal of depression, and, therefore, since the countries of the world must move largely together, it might have helped world recovery. For some time there had been a great disparity between the good rate of recovery of devalued countries and the lag or even worsening of gold standard countries.

France was a little disappointed with the result of devaluation, but nevertheless was beginning to feel the stimulus of industrial freedom in release from a continually downward pressure of gold prices. So, therefore, the general recovery of world trade should benefit by the common direction we should now enjoy together. But that was very small, in his judgment, compared with the immense importance of the psychological value of a change in the Latin mind towards gold as a standard on old-fashioned lines. Nothing could have been possible with the other countries until France, at any rate, was ready to study and invent a new game and play it. Nobody who went into a conference with consciousness of moral superiority such as the gold standard country had was going to help common agreement being reached. When they all started level, and all had the same misfortunes, they could work to a common end. No headway could have been made so long as the gold bloc, with a mistaken sense of virtue, was clinging to the old ideas, and using gold as a hoard of value which it could not be while it was a standard of value. But now, with the new mentality, they were willing to co-operate. Thus an important condition precedent to the examination of this controlling factor brought about also a new attitude of

Northwestern University

The Joseph Bonafine

Library of Commerce

mind towards exchange equalisation accounts, as co-operative means to a generally desired result, whereas up to now they had often been regarded as cunning British devices, weapons of trade offence, and even described in military terms. Any mention of their use for a common object used to rouse suspicions of a confidence trick. Now, however, the common object had been provided by force of circumstances, and not by academic appeal, and a real experiment in working towards it had been undertaken. If we had gone last year and said to the gold bloc, or even America, "Let us all have exchange equalisation accounts and exchange views about them to use them for a common purpose," it would have been regarded as academic and idealistic, and would not have stimulated any response. But this common object had now been provided by force of circumstances.

It would appear now that gold was no longer going to be very accessible to individuals who were safety-first people, but there was still not very much to stop nervous countries using gold as a kind of bolt-hole, for their nerves. It was too early yet to say whether gold would continue to appreciate in value under these new conditions, compared with commodities, and therefore act as a depressant to business.

The attempt to measure commodity values of gold depended upon using gold for that purpose. The moment gold was stored away, it was like a man measuring with half the measuring tape in his pocket. So long as gold was piled below, for safety, it would never be a satisfactory value; it would always be a depressant.

The general effect of recent events might be for a short time rather adverse to our foreign trade position. We expected an expansion of French export trade, and the tendency at the moment was to increase imports and diminish exports. The position might be a little adverse to our foreign trade, but that was only a short-run view, because if it brought about, as we were entitled to expect, a general "warming" of the frozen international positions, if it had a loosening effect on the tight trade barriers of quotas and restrictions of all kinds, and in general made international trade easier to conduct, then this country stood to gain as much as any.

This country, although it had sought a considerable amount of self-sufficiency, had by no means yet scrapped its equipment or its organisation, its national economic framework designed for a large body of foreign trade. For over 100 years a large proportion of our trade had been international, and we had not gone so far on the other path as to make it important. The staple industries which were still depressed made us realise that. Whatever might be the short-run effect of these recent changes, the long-run effect in warming up the frozen positions was that foreign countries could once more trade with ease, which was going to do a great deal of good, and bring life again to export industries which had for long been seeking markets, and been unable to get across the barriers.

These monetary factors were still experimental, but they had important bearings upon political measures. The French had made a beginning in altering the tariff positions. The changes were rather theoretical, and did not represent a release of anything that was really effective, but there were some changes, and they were a gesture. And he found on the Continent that everyone was looking expectantly to Great Britain and asking whether the country that came last into the tariff muddle would be the first out. Although we came in last, we did not go in deepest, and those who had made the worst restrictions should remove them, until we were more or less on common lines. On the Continent it was still believed we were liberal-minded in the matter of international trade, and

while there would be no such thing as completely open free trade again, we should be pioneers in a movement towards the removal of unnecessary exchange restrictions and tariff barriers. A mere description of the present currency and exchange restrictions in the various terms for sixty countries extended to forty-five thousand words, and any explanation of their effects would want four million five hundred thousand words. And if any of his audience travelled through half a dozen countries, they might not need so many words, but they would need some strong ones. (Laughter.)

Sir Josiah said there could be no question of the strength of the sterling bloc, or its amount of credit. And that carried an immense responsibility. Supposing that at any time sterling got into difficulties, or the currencies linked with it did, would the battle be fought in London, or would other countries—he had made this query to Greeks, for instance—have some force to withstand? The more people that joined sterling, the better it was for international trade, and for getting rid of fluctuations in trade, but it also meant that those who had the management of sterling had more responsibility to face. We were entering upon a new area of responsibility the larger the sterling area became. But the course was set for a general improvement in the direction of greater freedom. He did not expect it to be very rapid. It was clear that it would be done very cautiously. On the other hand, if it was done with a reasonable amount of success at each point, the movement might gain great momentum, and every enlargement of the areas of relative freedom, as, for example, in the Danube basin, where they had enunciated the principle that they would like to have closer economic union (represented by lowering their tariff barriers, and not being afraid of buying and selling to one another) was a step forward. These bilateral trade agreements were better than nothing, and were an endeavour to enlarge or expand the contractions of the last few years. They were very far short of what he should call natural international trade. Countries were aiming at a reasonable degree of self-sufficiency, and we had to accept some degree of self-sufficiency as a basis from which to start. Let us, then, discuss what amount of free trade was possible over universal barriers of a reasonable character. We ought to aim at getting beyond bilateral agreements. Foreign trade was by nature multi-angular, and the bilateral scheme tended to cramp trade down to the smaller flow between any two countries. If that practice became universal, he would estimate that world foreign trade would probably not be much more than fifty to sixty per cent. of the natural exchange on a general basis over reasonable tariff walls without currency restrictions, and with reasonably stable exchanges. But if there was a world with absolute equality of flow between every country, strictly speaking no foreign investment could be made, and all debts and interest would have to be repudiated.

Only experience could show whether the monetary factors would be allowed to work themselves out without political prejudice. At present the American and Canadian dollars, the pound sterling, and lira were all devalued to about 60 per cent. of the 1929 par value. The French, Swiss, and Belgian currencies were about 70 per cent., the Dutch 79 per cent., but the Japanese currency was as low as 34 per cent. Exactly what unnatural strain those differences would set up in export competition could not be foretold, but they did not necessarily represent overvaluation in particular cases. The fact that the dollar and the pound were close to their old gold standard parity seemed to have a magic effect on people's minds as a norm to which the currencies must properly tend, but, as a matter of fact, it was not much more than an odd coinci-

dence unless in the meantime the changes in the price and wage structure in the two countries had been practically identical, which was rather unlikely.

Economic nationalism induced probably an overbalance of internal development for the size of the country, but still more, it induced a wrong habit of economic thinking. Of course, on the theoretical side, there was the phase also that we tended to idealise too much, and start from our ideals. We had really to start from facts as they were. He recognised that countries had to put up these various barriers for specific reasons, and it required a great gesture of faith for them to disarm financially, and disarm from the customs point of view. If we could get a fixed point to move from, by common agreement, then there was much gained. There were two fixed points—the one of collaboration for keeping the exchanges right, and the other getting tired with currency restrictions and the like. With those two things universally activating men's minds, a great deal might happen in the next few years, to common advantage.

One of the lessons of the period we had been through was that a currency divorced from gold was not necessarily at inflation point. Previously we all had tremendous fear that if a country went off gold it must lose foundations and its exchange rates would worsen, and so it would have to apply remedies, or attempt to apply them, which would lead to fairly rapid deflation. But we had seen how a currency divorced from gold could be kept even steadier than gold. We had seen how a re-adjustment of internal prices might make domestic recovery possible. If we could focus upon our own internal values, we might secure conditions of domestic revival which might be better than forcible depression. We had seen that in some ways—in many ways—the evils of being off gold, great as they were, had compensations. We might find some new way of being on gold that did not give us the old troubles. We were all agreed that short-term fluctuations ought to be smoothed out and that fugitive movements of capital by speculators and for other reasons not affecting internal credit should not be allowed to affect prices or interest rates internally. There should not be deliberate undervaluation.

Most of them believed there were too many separate industrial units. When countries like Australia, or even Ireland, were trying to have all the advantages of mass production, self-contained, it was the negation of the policy of interchange of world wealth.

Sir Josiah suggested that in attempts to restore international trade there should be no fixed set of conditions, but rather a scheme of trial and error, efforts being made with the best intentions for certain limited periods, three months or six months, if they liked. If at the end of that period the two countries concerned compared notes and found the arrangement had been easy, they could narrow the zone and lengthen the period, and so by gradually diminishing zonal parities and lengthening the time they could reach the point where they could be reasonably confident.

Referring to the position in America, Sir Josiah said one of the stimuli towards excessive prices of securities was the principle of taxing capital accounts. He knew people who were holding stocks which showed handsome profits at present prices, and, but for that tax, there was no doubt they would go into the market and sell, so keeping the prices down, and their holdings would assume small dimensions; but they were so frightened that they held on, and the stock coming into the market was not sufficient for the demand.

He had not time, he said, to deal at any length with the technological and natural factors. They had to

recognise, however, in their passion for harking back, that certain trade streams which had been important had now ceased to be, although they might be reconstituted in some ways. For instance, the Lancashire cotton trade to the East had undergone profound changes. He was not saying that the Lancashire cotton trade had not a future, but it was different from "the future of the past." Was there any reason now why the cotton trade should be located in Lancashire? There used to be, for we were told of our wonderful prominence and leadership in machinery and invention, cheap power, the natural humidity of the air which was so good for the industry, and the inherited skill of the workers. But the last-mentioned, for instance, was quickly acquired by the young ladies of other countries. And scientifically controlled humidity was an improvement on natural humidity. So these factors changed, and with them trade must change.

There was also the question of raw material prices in relation to manufactured goods. This was still important, for the solvency of particular countries and the re-establishment of confidence. But on technological lines the world was set for realising great possibilities and establishing the standard of life on new levels, provided a reasonable equilibrium and confidence in trade could be attained, the political deadlock released, and the monetary problem reasonably solved, not finally, but by wise trial stages. He did not regard the trade of the world as having "said its last word." He thought they were going to start afresh on new lines when once they got past the monetary and political difficulties. Technologically the world was ready for immense improvements in the productivity of man's labour.

MUNICIPAL ELECTIONS.

The following Incorporated Accountants have been successful in the recent Municipal Elections:—

At Sheffield (Heeley Ward) Mr. Harry Cunningham, F.S.A.A., the President of the Sheffield District Society of Incorporated Accountants, has been elected by a majority of 608 votes over his Socialist opponent.

At Liverpool (Fairfield Division) Mr. Charles M. Dolby, F.S.A.A., has been elected by a majority of 1,008 votes over his Labour opponent.

At Newport (Mon.) Mr. Alfred E. Pugh, F.S.A.A., has retained his seat against a Socialist opponent by a majority of 805 votes.

At Carlisle (St. Cuthbert's Ward), Mr. W. L. Harris, A.S.A.A., has been elected by a majority of 435 over his Labour opponent.

At Birmingham (Bromford Ward) Mr. Vernon W. Grosvenor, LL.B., F.S.A.A., has been elected by a majority of 665 over his Labour opponent.

Institute of Municipal Treasurers and Accountants.

The Council of the Institute of Municipal Treasurers and Accountants has appointed Mr. J. A. MacKerrell, A.S.A.A., Assistant Secretary, to the position of Secretary of the Institute.

ALLEGED NEGLIGENCE BY ACCOUNTANTS.

Leech v. Stokes Bros. & Pim.

JUDGMENT FOR DEFENDANTS.

The following is the judgment of Mr. Justice Hanna in an important action in the High Court of Justice, Irish Free State, brought by Mr. Hunt Walsh Leech, Solicitor, against Messrs. Stokes Brothers & Pim, Chartered Accountants, Dublin, claiming £3,750 damages for alleged negligence and breach of duty as auditors.

MR. JUSTICE HANNA said: The plaintiff, Mr. Hunt Walsh Leech, is a well-known solicitor. He has been a member of the profession since the year 1869, and was senior member of the firm of Messrs. Crookshank Leech and Fetherstonhaugh, of Dublin. At the times under consideration in this case he had a partner, Mr. Frank E. Fetherstonhaugh, who was junior partner under a deed of partnership dated January 2nd, 1928, the partnership commencing as from April 5th, 1927. Prior to that date Mr. Fetherstonhaugh had been a salaried assistant solicitor of the firm. The business of the firm of Crookshank Leech & Fetherstonhaugh was under the sole control of Mr. Fetherstonhaugh, as Mr. Leech resided in Coleraine, Co. Londonderry, where he practised as a solicitor. He did not take any active part in the Dublin business, and merely received his share of the profits from time to time. The position of cashier and book-keeper of the firm was filled by a clerk named Hill. In addition to the ordinary business of solicitors, the firm had a large business as agents for the collection of rents of over forty estates throughout Ireland. The work of receiving the rents and other moneys and giving the receipts for same was the duty of Hill, who during the years under survey in this case embezzled many thousands of pounds of clients' money for which, owing to the death of Mr. Fetherstonhaugh, Mr. Leech has become personally responsible. The defendants, Messrs. Stokes Brothers and Pim, are a well-known firm of auditors in Dublin who were employed as alleged by the plaintiff from the year 1928 until 1933 in preparing the annual profit and loss account of the firm. They are charged with negligence and breach of duty as auditors in that during this period of six years, by reason of the inefficient auditing by their assistants, Messrs. Deane & McClelland, these defalcations of Hill were not discovered, and that through their negligence he was enabled to continue his course of dishonesty to the extent of embezzling on an average about £500 a year.

The matter has come to light through the death of Mr. Fetherstonhaugh, who died on March 31st, 1934, following which Mr. Leech formed a new partnership with Mr. Cecil Vanston. The latter, in order to have the accounts of the old partnership squared and the position of the firm ascertained, employed another auditor, Mr. Sedgwick. In the course of these investigations Mr. Sedgwick's assistant, Mr. Naismith, in two days after he had commenced the investigation of the books, discovered the fact that defalcations were being made. Until his discovery, which took place in October, 1934, no one had suspected Hill of dishonesty and he was looked upon as a trustworthy employee.

After the matters had been as fully investigated as was necessary by Mr. Sedgwick and he had reported thereon, this action was commenced in the name of Mr. Leech alone. The personal representatives of Mr. Fetherstonhaugh were not joined as plaintiffs. Mr. Leech, though suing in his own name, admits that he is seeking to recover damages on behalf of the firm as the last surviving partner. This would seem to be his right under the law and no question was raised by the defendants on this point. Mr. Leech's claim is that the defendants are liable to make good all Hill's defalcations after the date when they were brought in as auditors.

The particulars of negligence alleged against the defendants in paragraph 15 of the Statement of Claim are rather vague, and having regard to the course of the

trial indicate that the plaintiff had in fact very little knowledge of what had actually taken place. Paragraph 15 is in the following terms:—

"The plaintiff charges that the defendants were guilty of negligence and breach of duty in that they certified the correctness of the accounts without seeing that the books of the Dublin firm were properly kept and proper entries made therein and proper lodgments made with the firm's bankers and without properly checking the entries with the bank accounts or verifying the correctness of the cash and the bank balance or making proper examination of the said books or insisting on a proper vouching of receipts and payments and without examining and comparing all books and accounts of the firm which were the necessary or proper source of information for the due and proper discharge of the duty undertaken by the defendants. The plaintiff relied upon the due discharge of their duty by the defendants and was thereby induced to refrain from investigating on his own behalf the conduct of the partnership business and the plaintiff charges that but for such negligence and breach of duty the frauds of the said Thomas Aloysius Hill would have been discovered and their continuance prevented and that as a consequence of such frauds moneys of the Dublin firm so misappropriated as aforesaid have been lost to the plaintiff being irrecoverable from the said Thomas Aloysius Hill and ought to be made good by the defendants."

An important issue in the case really turns on the point raised in the defence as pleaded in paragraph 10, namely, that the defendants were instructed merely to prepare a return of profits of the firm for income-tax purposes and that no investigation of the books was necessary or required for that purpose. The terms of the defence in paragraph 10 are as follows:—

"The defendants say that they were instructed by the said Francis Edward Fetherstonhaugh to prepare accounts solely for the purpose of rendering correct returns of the profits of the said firm for income-tax purposes and furnishing the same to the Inspector of Taxes, and that the accounts for the years ending on the 5th day of April, 1928, 1929, 1930, 1931, 1932 and 1933 respectively were prepared by them for the said purposes only and on and in accordance with the instructions given them in that behalf by the said Francis Edward Fetherstonhaugh on behalf of the Dublin firm. The said Francis Edward Fetherstonhaugh on each occasion of instructing the defendants as aforesaid produced to the defendants certain books relating to the business of the Dublin firm from which he instructed them to extract and segregate such items and figures entered therein as were proper and necessary to be comprised in returns for the purpose of income tax. No bank books or accounts were produced or made available to the defendants and the defendants were not instructed and did not undertake and had no duty to vouch, check or verify the entries in the said books produced to them with the bank books or accounts of the said firm."

As this defence placed before the plaintiff a new aspect of the case of which he was previously unaware, the plaintiff replied specifically on this point in paragraph 4 of his reply that the negligence of the defendants was in not calling for and examining the necessary books and documents of the firm. This reply was in the following terms:—

"As a further reply the plaintiff says that if (which the plaintiff denies) the defendants were only instructed to prepare accounts for the purpose of the assessment of the profits of the Dublin firm to income tax it became and was their duty to call for and examine the books and documents of the firm, including the bank books, and to verify the entries therein and to furnish an accurate account to the partners severally of the profits and gains of the firm and the deductions to be made therefrom for the purpose of such assessment, and the plaintiff says that all the books and documents of the firm were available for inspection by the defendants

if and when called for and that the defendants were guilty of negligence and breach of duty in omitting to call for and examine the necessary books and documents and verify the entries therein and furnish a proper account to each partner, and that but for such negligence and breach of duty the frauds of the said Thomas Aloysius Hill would have been discovered and their continuance would have been prevented."

The plaintiff also put in a further reply alleging as particular negligence and breach of duty that the defendants knowing of the existence of the No. 2 Clients' Account to the credit of which all rents received for clients were to be lodged, did not examine or verify same nor verify that the amounts entered for agency fees had been debited to the said rentals, which examination was essential to the discharge of their duty as auditors.

In the course of the trial it appeared from the evidence that the net points of negligence and omission as auditors alleged against the defendants were:

- (1) that a diligent and careful auditor would not prepare an account of the profits for any purpose without a balance sheet;
- (2) that a diligent and careful auditor would not have omitted to check the agency fees with the rentals;
- (3) that a diligent and careful auditor would not have omitted to check the bank balance with the cash especially when there was no balance sheet;
- (4) that under the special circumstances of the case the certificate appended to the accounts was not such as a careful and diligent auditor should have given;
- (5) that a diligent and careful auditor would have at once become suspicious in 1932 when he found the No. 2 Account, which dealt with clients' money, owing the sum of £1,249 to the firm's No. 1 Account.

As to the legal position, it is clear that anything that Mr. Fetherstonhaugh, the acting partner, knew or did binds the plaintiff, the sleeping partner, who is presumed to have full knowledge of the partnership affairs and methods of business. Mr. Leech therefore can be in no better position than Mr. Fetherstonhaugh, and must be taken to stand in his shoes and the case must be tried upon that basis.

The duty of an auditor, on general principles, is to exercise such care as a reasonably diligent and careful auditor should show in the discharge of any duty thrown upon him. As to the duty of an auditor there have been several decisions. In the case of the *Leeds Estate Building and Investment Company v. Sheppard* (36 C.D. 787) it was held that it was the duty of an auditor of a company in auditing accounts not to confine himself to verifying the arithmetical accuracy of the balance sheet but to inquire into its substantial accuracy, and to see that it contained a true and correct representation of the company's affairs. In *re The London and General Bank* (No. 2), 1895, *Second Chancery*, at page 682, and the following pages, Lindley, L.J., has dealt very fully with the duty of an auditor, and his remarks are of general application:

"It is no part of an auditor's duty to give advice either to directors or shareholders as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is being conducted prudently or imprudently, profitably or unprofitably. It is nothing to him whether dividends are properly or improperly declared provided he discharges his own duty to the shareholders. His business is to ascertain and state the true financial position of the company at the time of the audit, and his duty is confined to that. But then comes the question—how is he to ascertain that position? The answer is by examining the books of the company. But, he does not discharge his duty by doing this without inquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so. Unless he does this his audit would be worse

than an idle farce. Assuming the books to be so kept as to show the true position of the company the auditor has to frame a balance sheet showing that position according to the books and to certify that the balance sheet presented is correct in that sense; but his first duty is to examine the books not merely for the purpose of ascertaining what they do show, but also for the purpose of satisfying himself that they show the true financial position of the company. This is quite in accordance with the decision of Stirling, J., in *Leeds Estate Building and Investment Company v. Sheppard*. An auditor, however, is not bound to do more than exercise reasonable care and skill in making inquiries and investigations. He is not an insurer. He does not guarantee that the books do correctly show the position of the company's affairs. He does not even guarantee that his balance sheet is accurate according to the books of the company. If he did he would be responsible for error on his part, even if he were himself deceived, without any want of reasonable care on his part save by the fraudulent concealment of a book from him. His obligation is not so onerous as this. Such I take to be the duty of the auditor. He must be honest—that is, he must not certify what he does not believe to be true, and he must take reasonable care and skill before he believes that what he certifies is true. What is reasonable care in any particular case must depend upon the circumstances of the case."

This quotation indicates what is the duty of the auditor in a general sense, and also what is his duty in a particular case.

The case of the *Kingston Cotton Mills Company* (1896, *Second Chancery*, page 279) dealt with the question whether it was reasonable for auditors, without making a personal examination, to take the return of the manager as to the stock, and it was held that it being no part of the duty of the auditors to check stock, they were justified in relying on the certificates of the manager, a person of knowledge, competence and high reputation; that they were not bound to check his certificates in the absence of anything to raise suspicion, and that they were not liable for dividends wrongly paid out on their certificate. Lindley, L. J., said:—

"I protest, however, against the notion that an auditor is bound to be suspicious as distinguished from reasonably careful."

But an important distinction between that case and the present is that the manager who made the return had no personal interest, and there was no conflict between his interest and his duty. Lindley, L. J., says:—

"His position was not similar to that of a cashier who has to account for the cash which he receives and whose accounts of his receipts and payments could not reasonably be taken by an auditor without further inquiry."

At page 289, Lopes, L. J., said:—

"It is the duty of an auditor to bring to bear upon the work he has to perform that skill, care and caution which a reasonably competent, careful, cautious auditor would use. What is reasonable skill, care and caution must depend upon the particular circumstances. An auditor is not bound to be a detective or, as was said, to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watchdog, not a bloodhound, but he is justified in believing tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest, and to rely upon their representations provided he takes reasonable care. If there is anything calculated to excite suspicion he should probe it to the bottom, but, in the absence of anything of that kind, he is only bound to be reasonably cautious and careful."

At page 290 he says:—

"Auditors must not be held liable for not tracking out ingenious and carefully laid schemes of fraud when there is nothing to arouse their suspicion and when these frauds are perpetrated by tried servants of the company that are undetected for years by the directors."

In the case of the *City Equitable Fire Insurance Company* (1925, *First Chancery*, page 407), Pollock, M. R., said at page 509 :—

"What is the standard of duty which is to be applied to the auditors? That is to be found and is sufficiently stated, I think, in *re Kingston Cotton Mills Company* (No. 2). As I have already said, it is quite easy to charge a person after the event and say, 'how stupid you were not to have discovered something which, if you had discovered it, would have saved us and many others from many sorrows!' But, it has been well said that an auditor is not bound to be a detective or to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watchdog but not a bloodhound. That metaphor was used by Lopes, L.J., in *re Kingston Cotton Mills Company*, No. 2. Perhaps, casting metaphor aside, the position is more happily expressed in the phrase used by my brother, Sargant, L.J., who said that the duty of an auditor is verification and not detection. The *Kingston Cotton Mills Case* is important because expansion is given to this rather epigrammatic phrase. Lindley, L.J., says, 'It is not sufficient to say that the frauds must have been detected if the entries in the books had been put together in a way which never occurred to anyone before suspicion was aroused. The question is whether, no suspicion of anything wrong being entertained, there was a want of reasonable care on the part of the auditors.'"

A case strongly relied upon by the Plaintiff in this case was *Fox & Son v. Morrish, Grant & Company* (35 T.L.R., page 126). The head note says :—

"Where an accountant is retained to check books of account, and where there is no specific arrangement that he need not verify the correctness of the cash and bank balances stated in the books, he commits a breach of duty if he checks the books without such verification and without informing his client of the omission."

This was a case of the preparation of half-yearly balance sheets for the firm from their books, and in the balance sheet the amounts of the cash in hand and cash at bank were not verified; these balances through the fraud of a clerk were inaccurate. The defence was that the accountants were not employed to audit the books, but merely to check postings and additions in the books and to make out a trading account and a profit and loss account and a balance sheet from the figures in the books.

Lawrence, J., on the evidence of the expert witnesses in the case, held that in the preparation of a balance sheet account cash at the bank and in hand must be stated and in stating it the accountant must either look at the pass book or get a certificate from the bankers, or if that was not done that the client must be told it had not been done.

The object of the balance sheet in that case was to let Mr. Fox know the position of his business, which was impossible unless he knew the result in cash; it was therefore the duty of the accountant to see that the cash was correctly set out, and not doing so was a clear default in duty by the accountant. Damages were assessed accordingly.

This case is similar to the present in that no instructions were given not to prepare a balance sheet or to have a specific checking, but it is distinguishable in that it was the preparation of a balance sheet to show the true financial position of the firm; but the balance sheet so prepared was misleading and incorrect.

I turn now to several cases which are reported in the Accountant Tax Cases and the full judgments appear in the Appendix to Dicksee's work on Auditing.

One of the most important of those cases is a decision of the Court of Appeal in Ireland in the case of the *Irish Woollen Company, Limited v. Tyson and Others*, reported in Dicksee at page 787. The head note is to the following effect :—

"When the accounts of a company have been falsified and the defendants have improperly paid dividends out of capital the auditor is liable if the falsifications might have been discovered by the exercise of reasonable care

and skill." The duty of an auditor was dealt with at some length both by Holmes, L.J., and Fitzgibbon, L.J. At page 789, Holmes, L.J., said, "The auditor is bound to give reasonable care and skill but these can also be exercised by his deputy. He is entitled to see the company's books and the materials for their books and also to ask for explanations, but he is not called upon to seek for knowledge outside the company or to communicate with customers or creditors. He is not an insurer against fraud or error and if fraud is alleged it must be shown with precision the acts of negligence for which he is sought to be responsible."

At page 792, Fitzgibbon, L.J., said :— "As regards the measure of duty of the gentleman employed the result is the same as it seems to me as in all cases in which professional skill is employed except one—the peculiar instance of a barrister. The measure of duty is the bringing of reasonable care and skill to the performance of the business directed to be done having regard first to the contract of employment, then to the character of the business itself, the remuneration of the defendant, and all the other circumstances of the case. The fairest way to deal with Mr. Kevans in this case is to treat him as being charged with having failed to find just cause for suspicion on the face of the books which, if found, would have imposed on him a duty of pursuing his suspicion until he found whether it was or was not well-founded. . . ."

At page 794 he says :—

"The auditor is entitled, in the absence of elements of suspicion, to assume that books are honestly kept and that, therefore, unless on the face of the presumably honest book something appears to excite his suspicion, he is not guilty of negligence if he does not discover that something was wrong. Suspicion must be aroused by something on the face of the books."

Counsel on behalf of Messrs. Stokes Brothers & Pim relied upon another case reported in Dicksee—*The Trustees of the Property of Apfel, a Bankrupt v. Annan Dealer & Company* (Reported at Dicksee, page 1071), where a claim was made against accountants for negligence in preparing a balance sheet and profit and loss account, inasmuch as they failed to discover that the drawings by two of the proprietor's sons were fraudulently in excess of their proper drawings and of what the business could stand. The business was owned by an old lady and managed by her two sons. The auditors' instructions were to prepare a profit and loss account and balance sheet of the business for submission to the income tax authorities. They prepared the account and certified that it was "prepared from the books of Mrs. Apfel and in accordance therewith." The case turned mainly upon an error in the profit and loss account in the item of wages, the auditors inserting the figure £3,269 as wages paid, whereas in fact the wages paid were £1,269, the surplus of £2,000 being two sums of £1,000 each falsely entered by the sons in the books as bonuses paid by the proprietor to her sons, the falsity of which a full audit would have disclosed. Apart from the irregularity of the auditors of entering bonus payments under the head of wages, the defendants did, in fact, inquire into the excessive drawings of the bonuses and letters were produced by the sons from their mother authorising those two sums. It was after the production of these letters that the defendants entered the sums as wages. As regards the other over-drawings, amounting to £3,634, there was also a letter produced from Mrs. Apfel that she approved of the overdrafts. The learned judge held that the defendants could not, in these circumstances, be held liable for negligence in their accounts. He thought that on the facts the accounts were prepared as requested for income tax purposes, and it was merely accountancy work not involving a full audit and that the certificate given was sufficient. In my opinion there is no new principle of law laid down in this case and the decision was entirely upon the peculiar facts of the case.

Those cases which I have cited have clearly established that the duty upon an auditor is, under the circumstances of the particular case and of his employment, to exercise such care and skill as a diligent, skilled and cautious

auditor would exercise according to the practice of the profession.

An effort was made in this case to draw a legal distinction between the obligation upon an auditor and that upon an accountant. I cannot accede to that proposition. Accountants (which is a generic term of the profession) may draw a professional and conventional distinction between auditing and accountancy to the effect that in accountancy you may take things for granted and without vouching, which you cannot do in an audit, and that accountancy may be a cheap and speedy job, as in this case, while auditing, whether full or partial, is not. So far as this case is concerned the defendants cannot ride off on such a distinction, which, in my opinion, has no basis of legal principle to support it. Whatever description accountants may care to give to their work is a matter of indifference to the law. The legal obligation remains the same, to exercise such care as a reasonably diligent, cautious and careful auditor should use according to the practice of the profession.

The first essential element of fact in this case is to determine what was the contract to be performed by the defendants. Mr. Stanley Stokes, the senior member of the defendant firm, was an intimate personal friend of Mr. Fetherstonhaugh. They belonged to the same club where they met often at lunch and in the evening. As regards Mr. Fetherstonhaugh, he was an easy-going sort of man who, in my opinion, did not trouble about formal matters or business methods. While admittedly a good solicitor, in his office he seems to have left anything he could to others and did not trouble to correct the slipshod methods in bookkeeping and in office work. He appeared to have exercised no supervision over his staff or their work. The first introduction of this business was a telephone conversation which Mr. Stokes narrated as follows at Question 687 of the oral evidence:—

"One evening in April, 1928, just about late in the afternoon, he rang me up to say that he wanted some accounts for the purpose of agreeing to an assessment of the firm for income-tax purposes and would I send up an assistant."

And at Question 691:—

"He told me he wanted me to certify the firm's accounts to enable them to agree to the profits of the firm for the year to enable his own income tax to be completed, which could not be done without the firm's accounts having been certified."

Question 692.—

"There was no suggestion at any time that there was any question of an audit. It was never raised. Simply to do his income-tax work."

Question 696:—

"There were letters from the Bank of Ireland that they had been preparing his accounts and they said he must have his firm's accounts prepared before they could assess them."

He said further (at Question 1296) that he understood from the conversation with Mr. Fetherstonhaugh that the Inspector of Taxes asked for a certified account. The correspondence shows that he was correct in this, as on April 13th, 1928, the income-tax recovery agent of the Bank of Ireland had written to Mr. Fetherstonhaugh that "the return of the firm for income tax should be settled by Mr. Fetherstonhaugh's accountant with the Income-Tax Inspector and that his own personal return for income tax, which the bank had in hand, could not be completed until the accountant had settled with the Inspector the amount of the profits of the firm and the distribution of the profits between the partners." This would seem to clearly indicate that it was primarily in connection with his income tax that Mr. Fetherstonhaugh engaged the defendants. It is supported also by the fact that when the return was made out (I refrain from calling it a profit and loss account for the present) it was sent by the defendants with their explanatory report to the Income Tax Inspector. That was the procedure in the first year. During the succeeding five years the procedure seems to have been that the notice for the return was sent by the

Inspector of Income Tax either to Mr. Fetherstonhaugh or to the defendants as Mr. Fetherstonhaugh's known accountants; and instructions were given in general terms to the defendants to have the matter attended to as usual. Mr. Stokes said (Question 708), when asked as to what happened in subsequent years:—

"In the first year I got the verbal instructions. In the second year and in the third year I cannot say whether I got the reminder from the Inspector of Taxes. If he wanted accounts I rang up Mr. Fetherstonhaugh on the telephone and he said 'Get on with them as usual,' but whether he approached me or whether I approached him, I cannot say."

From all this evidence I am satisfied that Mr. Fetherstonhaugh left everything in the hands of the defendants. In the course of the case it was contended on behalf of the defendants that they could not be under liability for not preparing a balance sheet with its necessary investigation because Mr. Fetherstonhaugh did not ask for it. This is an erroneous view, for if the preparation of a balance sheet was a reasonably prudent and careful step for an auditor to take having regard to the work, it was undoubtedly the duty of the auditors to prepare it, even though not asked to do so. In such circumstances it is no answer to say that a balance sheet was not asked for by Mr. Fetherstonhaugh inasmuch as he had left himself in the defendants' hands to do what was right and proper for the purposes for which he had employed them.

Though the instructions had been given to Mr. Stokes personally, he did none of the actual work himself except to generally look over the final account before it was sent out with his certificate. During the years 1928, 1929 and 1930 he sent one of his assistants, Mr. Deane, and when the latter left his employment, during the years 1931, 1932 and 1933 he sent another assistant, a Mr. McClelland. Neither of these young gentlemen had ever previously prepared a profit and loss account from solicitors' books, but as they did the actual work, on the instructions of Mr. Stokes, it is necessary to see what instructions he conveyed to them. At Question 1815 Mr. Deane stated his instructions as follows:—

"Mr. Stokes told me that Mr. Fetherstonhaugh had been in to see him; that he was in some difficulty over his income-tax matters; and he asked me to go down to the office of Crookshank, Leech & Fetherstonhaugh and make out an account of the profits of the firm for submission to the Inspector."

At Question 1827, he said that when he saw Mr. Fetherstonhaugh, "Mr. Fetherstonhaugh told him to make out the account in such a way as would be suitable for submission to the Inspector of Taxes in order to arrive at the correct assessment." In the subsequent two years, 1929 and 1930, his instructions were of the same general character with no specific direction as to the nature of the investigation he was to make and no mention of any limitation or of any special requirement. It was left to this young gentleman himself to take out the profits as he thought best. After Mr. Deane left the employment of the defendants, Mr. McClelland was directed to do the work. There is no suggestion that his instructions were any different or more definite, but he procured Mr. Deane's audit notebook before he went to Mr. Fetherstonhaugh's office and saw how Mr. Deane had dealt with the matter. From the evidence I find as a fact that Mr. Stokes, as representing the firm, had thrown upon him the duty as an auditor of preparing the account for the Inspector of Taxes in a careful and diligent manner according to the skill which is expected from an experienced auditor and accountant; and if he sent his assistants to do the work the same duty was cast upon them. If it was reasonably necessary to verify and vouch all income or expenditure or to have the books written up that were not written up or, under the circumstances, to check the cash account with the bank account or prepare a balance sheet as a complement or check to the profit and loss account which was prepared, then all these things should have been done.

We have now to approach the serious question of whether, in carrying out their duties, these young gentlemen were guilty of any default. It is therefore necessary

to consider in some detail what they did during each of the six years during which the gross dishonesty and embezzlement of the cashier was continuing. When Mr. Deane went to the office of Mr. Fetherstonhaugh he saw Mr. Fetherstonhaugh, who told Hill, the cashier and book-keeper, to produce the necessary books. Hill produced a book known as the Costs Furnished Book and a bundle of weekly summaries which contained the record of the expenses. Mr. Fetherstonhaugh explained to Mr. Deane that the Costs Furnished Book contained a statement of all the firm's income and that all the expenses of the firm would be found in the weekly summaries. At Question 1823, Mr. Deane said he "understood from his conversation with Mr. Fetherstonhaugh and his instructions from Mr. Stokes that he was simply to extract the figures from the books" and that he acted upon this understanding. At Question 1989 he says:—

"To the best of my recollection I never asked about any other books and I never heard about any other books or saw them."

Now this seems to me the source of all the trouble. Whether, having regard to all the circumstances, it amounts to a breach of duty I shall consider later; but it certainly seems a matter of almost common knowledge and routine that an auditor employed by a firm for any purpose should ask "What books have you?" It would seem natural that the first thing he should do would be to make out a list of the books kept by the firm and who kept them. It seems to me essential that in many cases the most important part of the duty of an auditor would be the detection of fraud, though the expressions in some of the judgments I have referred to would seem in those particular cases to indicate a different opinion. He is not bound to be suspicious, it has been said, or to assume that everyone is dishonest; but he certainly should keep his eyes open and be on the alert. If he deliberately puts on blinkers by not asking for books he may find himself in a difficulty. The action of Mr. Deane on his first taking up this work was different from that of Mr. McClelland, his successor, who, though having Mr. Deane's audit book, was not content with its suggestions but at once raised the question of the preparation of a balance sheet and as to what books were available. (See Questions 2264 to 2268.) It is possible that Mr. Deane was led into quiescence by his understanding of the instructions of Mr. Stokes and Mr. Fetherstonhaugh, and it may have seemed to him a very simple and easy piece of work to be done by a firm of the standing of the defendants. It is somewhat in ease of Mr. Deane to consider what was the actual position of this firm as regards books. In simple language there were none except the Costs Furnished Book and the bank pass book. There was no cash book; there was no clients' ledger; and the book-keeping was conducted in the most careless and slipshod manner. The Costs Furnished Book contained entries of costs furnished and agency fees mixed up in the most unusual manner and brought out as one tot. When the rents were received from the tenants of the various estates, a correct receipt was given and a counterfoil filled, correctly or falsely as the case might be, and the rentals, kept on loose sheets, were written up as furnished at various dates to the client. There was no cash book and no clients' ledger, such of the money as Hill did not embezzle being paid into the firm's No. 2 bank account for clients. There were two bank accounts, No. 1 for the firm's money and No. 2 for the rents and money received from clients. The embezzlements of Hill were always of clients' money from rents as received—sometimes small sums and sometimes large sums; and (though I am not very clear on this point) he kept No. 2 account in funds to pay clients by paying large sums of firm's money into it and then, from time to time, transferring these items from No. 2 to No. 1. If Mr. Deane had asked for further books or documents all that could have been handed to him would have been the rentals and the counterfoils of the receipts. Mr. Deane says (at Question 1836) that he "made both a summary and an analysis of the expenses as set out in the loose summaries. This was to arrive at the proper totals and to exclude any expenditure which, in his opinion, would not pass the Inspector of Taxes."

As to the income, the checking which was done on this first occasion was, on the instructions of Mr. Fetherstonhaugh, to exclude from the tot of the costs furnished and agency fees a sum of £655 1s. 7d., which was the sum total of the costs which Mr. Fetherstonhaugh had indicated to him were attributable to the pre-partnership period. He also deducted from the total amount of the costs furnished and agency fees a further sum of £450 4s. 2d. as being clients' outlay. Having done that he prepared his account, which was entitled by him "Profit and Loss Account for the year ending 5th April, 1928." He took the amount of the costs furnished and the agency fees at £1,681 14s. 9d., as set out in the Costs Furnished Book without any independent checking. It is conceded that he could not have checked these costs furnished without getting the original bills of costs. He made no check of the agency fees, and for this matter he was severely criticised. It was contended by the plaintiff's counsel that the agency fees should have been checked and could have been checked, or that at least a test check of various items could have been carried out. It would have been a difficult task if he was to go through the whole of the agency fees, as they could be checked, if at all, only from the rentals corresponding to the particular items, as there was no clients' ledger and no further particulars available. I shall consider on the evidence later whether this was negligence or not, but shall leave it at present as a fact that Mr. Deane did not think of this.

Having prepared his profit and loss account, Mr. Deane showed it to Mr. Fetherstonhaugh, who approved of it, and on his return to the defendants' office he went over the draft profit and loss account with Mr. Stokes, who approved of it and signed the certificate which was appended. Mr. Deane also prepared the report or letter of 18th May, 1928, which was sent with the profit and loss account to Mr. Fetherstonhaugh and to the Inspector of Taxes.

As there has been a good deal of discussion on the subject, consideration must be given to the general nature of the auditors' certificate. When an auditor sends forth his certified account he lets loose under his hand a statement which may be used by his client for many commercial purposes. The value and weight of the whole audit and of his account depends upon the exact and clear wording of his certificate and, accordingly, in my opinion, it is his bounden duty to set out in it clearly, unequivocally and correctly a sufficient statement to enable anyone who reads it, auditor or layman, to estimate accurately the value and correctness of the account. From the evidence there seem to be various forms of certificate, changing in terms according to the occasion and the usage of particular firms of auditors. There seems to be a desire to be concise instead of full; and while some of the stereotyped and tabloid forms of words used might convey to other members of the profession exactly what was intended, the ordinary layman who has no auditor to guide him does not wait to consider the actual textual meaning, and is more influenced by the name of the auditor at the foot of the account, taking it as a guarantee that the account has been properly tested, probably using the phrase "It is all right; it is signed by an auditor." When the auditor does in fact vouch and verify the account he never hesitates to state so specifically, but when he does not vouch and verify the account he seems most reluctant to say so clearly, and I have not been able to find any sufficient reason why he should not unequivocally say "I have not verified the items in this account but have taken them from the books of the firm which, I am informed by the proprietor, or proper officer, are correct and I certify that the account is correctly drawn in accordance therewith." It has been suggested that such a certificate may raise queries or suspicions as to the value of the account. The answer to that is, why not, if the proprietor will not have a properly vouched account prepared? So much for the general character of certificates. An attack has been made on the certificates given in this case, with the first of which we are presently dealing. Some importance has to be attached to the fact that this was the first

certificate on the accounts being presented to Mr. Fetherstonhaugh and to the Income Tax Inspector, and it might be fair to presume that the circumstances to which their attention was called on that occasion might be present to their minds when considering the further accounts that were issued to them on the same lines during the next six years. The first certificate, however, is different from the others. It was in this form:—

"We have prepared the above account from the books of the firm and subject to our report of this date, we certify that it is correctly drawn up in accordance therewith.—Signed by Stokes Bros. & Pim, Chartered Accountants and Auditors."

To my mind the incorporation of the report of May 18th in this case is the really valuable part of this first certificate, for it was in these terms:

"Dear Sir,—We have pleasure in enclosing profit and loss account for the year ended April 5th, 1928. *Costs and Agency Fees*: This total has been compiled from the costs furnished book which, we are informed, includes all costs and fees furnished during the year. In accordance with your instructions we have excluded the sum of £655 1s. 7d., as representing costs, etc., earned prior to April 5th, 1927, the date of the commencement of the present partnership. *Office Outlay*: The total expenditure during the year, as shown by the weekly summaries, amounted to £1,325 18s. 5d., of which the sum of £450 4s. 2d. represented sundry disbursements charged to clients. These latter have been deducted from the costs and agency fees as shown in your statement, leaving office expenditure amounting to £875 14s. 3d. If you approve of the account we shall be pleased to forward a copy to the Inspector of Taxes on hearing from you. We are returning your statement herewith. Yours faithfully,

(Signed) STOKES BROS. & PIM."

That report states clearly that the account is merely a mechanical compilation of the figures from the costs furnished book and it refers to the information given verbally to the auditors and not contained in the books. With the profit and loss account this report was sent to the Inspector of Taxes attached to the clients' declaration on the yellow form, which was a very proper thing to do. The only question that the Inspector of Taxes has raised is as to whether the accounts should not have been presented upon a cash basis instead of upon a costs furnished basis. There was a long correspondence on this subject, lasting from May until July, but no other question was raised upon the account. I am satisfied that this report explained sufficiently to the Inspector of Taxes the nature of the account presented and that he was in no way misled by it. Neither was Mr. Fetherstonhaugh in any way misled as he had personally provided the material for Mr. Deane; and though Mr. Leech would be bound by Mr. Fetherstonhaugh's knowledge, he (Mr. Leech) says at Questions 19 to 32 that the accounts certified by the auditor, or copies of them, were sent to him from time to time. Mr. Leech, though very advanced in years, when he appeared before me was very clear in his evidence, and I am certain from my knowledge of him and his experience as a very able solicitor, that if he had paid any attention to the certificate and the report he would not have been in any way misled. I think he was satisfied to see the auditor's name and certificate without regard to the exact terms of the latter. Besides he had full confidence in Hill and in Mr. Fetherstonhaugh. I am quite satisfied that if anyone had said specifically to Mr. Leech that the accounts had not been verified but had been taken from the firm's books which Mr. Fetherstonhaugh said were correct, he would have taken it as sufficient inasmuch as, in addition to his confidence in Mr. Fetherstonhaugh and Hill, his letters show that for the purpose of ascertaining profits he did not think that an auditor was at all necessary and had suggested that it would be sufficient for Mr. Fetherstonhaugh to set off the income as against expenditure. The accounts were really used as between the partners to verify the amount of the profits which they should share, and it appears from the evidence that the remittances of the share of Mr. Leech in the profits in

most years were sent independently of any preparation of the accounts. There is no evidence that he was at all interested in the income tax question.

To extend my view as to the certificates to all the accounts, those of the subsequent years were not accompanied by any report and the certificates were of the baldest character, simply stating that the accounts were prepared from the books of the firm and were "correct in accordance therewith," the last certificate (for the year 1933) omitting the word "correct." As to all these certificates only three persons were concerned in them—Mr. Fetherstonhaugh, Mr. Leech and the Inspector of Taxes. I am satisfied that none of these were misled in any way by the certificates and that the point raised with reference to them that it was open for him to infer that there was a complete audit, is not supported by the evidence and that such a thing never occurred to Mr. Leech. Accordingly they do not affect the result of this case, but, if there had been evidence that anyone had been misled by them I should have had some criticism to make upon the form used as not disclosing clearly that the accounts had not been vouched.

We come now to the question of negligence and breach of duty. A consideration as to whether Mr. Deane was negligent virtually covers the whole case as it was in his time that the alleged defective system was commenced, and, as Mr. Stokes admitted, a minimum of service given. There are three points raised against him—firstly, that he did not prepare a balance sheet; secondly, that, not having prepared a balance sheet, he did not vouch or test the agency fees, and thirdly, that, not having prepared a balance sheet he should have reconciled the bank account and the cash. It has not been established that in any way the omission of any of these matters falsified the profit and loss accounts as prepared. All the accounts prepared and sent in to the Inspector of Taxes were correct in fact. The contention against the defendants is that though the minimum of service luckily produced a correct result the matters omitted to be done would have been done by any competent and careful accountant on the instructions given and that the suitable inquiries would have revealed the embezzlements of Hill and, at least from 1929, he would have been found out and dismissed. This raises two questions therefore—should these inquiries have been made; and, if so, would they necessarily have revealed the embezzlements of Hill?

On the first question as to whether Mr. Deane should have prepared a balance sheet, I am satisfied on the evidence that a correct profit and loss account for income tax could in fact be made out as Mr. Deane did it, without a balance sheet; but, on the whole of the evidence as to the general practice of accountants of standing I am equally satisfied that none of them would have omitted to prepare, if possible, a balance sheet as supplementary to the profit and loss account. The eminent auditors called for the defendants endeavoured, as far as possible, to lighten the responsibility of Messrs. Stokes Brothers & Pim in this respect, but I have gathered from the whole of the evidence of Mr. Brock and Mr. Geoghegan, who were for the defendants, as well as from the plaintiffs' witnesses, Mr. Sedgwick and Mr. Mackie, that, subject to its being possible, and the material being available, they would all have prepared a balance sheet along with the profit and loss account. Equally, there is no doubt in my mind that if a proper balance sheet had been prepared these defalcations must necessarily have appeared upon it; but, on the evidence and the report of Mr. Sedgwick, the auditor who discovered the defalcations, we must decide whether the balance sheet was in the circumstances feasible and practicable even if Mr. Deane had been of a mind to prepare one. It is necessary to decide this inasmuch as the allegation against the defendants is, as I have indicated, that if they had prepared a balance sheet they would have discovered Hill's defaults, and in this I agree. As to the books which were available, Mr. Sedgwick says in his report (which is in evidence) the following:—

"Up to April, 1927, a book in which receipts and payments were supposed to be entered was kept, and there was also a ledger in force, in which there were

accounts for clients, but both books were kept in a most unsatisfactory manner: there being no entries of lodgments, or reconciliation in any way between the moneys lodged and those received. Furthermore, the accounts in the ledgers were not agreed with the rental accounts that were prepared, and in fact this could not have been done in view of the irregularities which took place, with the result that the books referred to were of little or no value in connection with our work.

"For the period from April, 1927, to April, 1931, the position was even worse, there being neither cash book nor ledger of any kind kept; the only record of a financial nature, in book form, was what might be described as a summary of fees received and office expenses, and it would appear that it was from this summary account that the auditors made up the profit and loss account each year. During this period of four years, clients' accounts, in the nature of rentals, were apparently made up from the rental register, cheque blocks and lodgment dockets, without any accounts being written up showing the position with clients."

Having regard to this report and the evidence of the witnesses that there were no books or documents available other than the costs furnished books and the cash summaries, I am satisfied that a balance sheet could not have been prepared in the absence of a clients' ledger and a cash book, and that if a balance sheet had been necessary, apart from being a reasonable and desirable requirement, which might or might not be dispensed with, they would have required to write up the cash book and have all the entries posted to it and the entries made from the cash book to the bank account written up and reconciled. The auditor would require also to prepare a clients' ledger and write it up as his first record and possibly have the ledger balances verified by the client's signature. On this point the only course open to Mr. Deane, if this had occurred to him, would have been to report to Mr. Stokes the absence of the books of which Mr. Stokes knew nothing and leave it for Mr. Stokes to say whether Mr. Fetherstonhaugh should be urged to have proper books prepared and written up, obviously at great expense. Now, was it a breach of duty on the part of the assistant and the defendants to omit to insist upon the preparation of these books which were necessary for a proper balance sheet in addition to the profit and loss account? The defendants charged Mr. Fetherstonhaugh only £4 19s. for the preparation of the account and the correspondence, and in subsequent years a similar minimum amount, whereas Mr. Sedgwick was paid 300 guineas for his work of the complete audit which revealed these defalcations. I cannot find negligence or breach of duty against the defendants on this head; nor do I think a jury of business men would hold them responsible in this particular matter of the balance sheet.

The point, however, was put alternatively that if the defendants were not bound to advise the preparation of the balance sheet on account of its difficulty and expense and impracticability, they should at least have reconciled the cash account with the plaintiff's lodgments. In respect of that a similar question arises: Was that a practicable and reasonable step that should have been taken by Mr. Deane? He was met with the corresponding difficulty and uncertainty here for there was no cash account and nothing with which the bank account could be reconciled. He would have to prepare and write up a cash book from whatever undigested material was available. It brings us to the same point again—in the preparation of the ordinary profit and loss account for a person or firm, where there is no clients' ledger from which the balance sheet might have been prepared, the cash should be reconciled with the bank account. This, I think, is clear from the evidence of the accountants. But where there is no cash book kept, as in this slipshod system of bookkeeping, was it negligence for Mr. Deane to take what was represented to him by the proprietor as the correct cash entries for the purpose of his return of profits for income tax from the summaries and, later, from the documents which took their place? Some of the witnesses admitted that if faced with such a situation

they would have refused to prepare the account at all until these documents were written up; or, if they had prepared an account, they would not have certified it save with the addition of a very full explanatory report. I gather from Mr. Brock's evidence that in such a case he would not have given a certificate at all and would have preferred not to do the work. This is a high standard of duty placed by Mr. Brock upon himself. But I do not think I could decide that it should be an inflexible rule nor hold the breach of it in this case to amount to actionable negligence. It is, of course, very easy to be wise after the event and say "if this had been done, the frauds would have been found out." I have come to the conclusion on this head that no checking of the cash against the bank account would have revealed those frauds. It would have been necessary to go right back to the counterfoils and the receipts and the loose rentals, the cheques, and possibly by inquiries from the clients themselves, as was done ultimately by Mr. Sedgwick. Therefore, I give the same answer to this part of the case—that, under the particular circumstances of this case, the limited nature of the accounts required, the absence of proper books and there being no necessity for a full and expensive audit, I cannot impute actionable negligence or breach of duty against the defendants in this matter.

The next point raised on Mr. Deane's audit is that he was negligent in not checking the agency fees included in the audit of the costs furnished. As in the other cases, he was told that the agency fees disclosed in the costs furnished book were correct and it is now admitted, after searching investigations, that they were substantially accurate. It seems to me that there are two answers to the suggestion that there was negligence in not checking the agency fees from the rentals—first, such verification would have been of no value as the agency fees claimed have been shown to correctly correlate to the rentals furnished and are correct in fact on that basis; and, secondly, the calculation upon the basis of a percentage on the amount of rents in the rentals might be misleading as the agency fees were not calculated on the cash collected in the year of account but on such accounts as were furnished to the clients during that year. There would probably be no relation between the amounts furnished and the amounts actually collected. It is difficult to know exactly how the fraud was carried out, but I am not satisfied that Hill was crediting the firm with agency fees on moneys or rents collected for the clients but embezzled by himself. Mr. Deane took the owner's word as to these fees being correct and, in my opinion, not having to make a full audit, and in the absence of a clients' ledger, I cannot hold the defendants responsible for actionable negligence.

As I have pointed out, this year, 1928, is the crucial point of time because the system adopted by Mr. Deane was followed by him in the next two years. It may be a mistake to send the same assistant to audit year after year, because he walks in his former footsteps, and if he has missed something the first time it is very unlikely that he will discover it on the second or third occasion. The only difference in 1929 and 1930 was that the weekly payments sheets had been discontinued and in 1929 these items were written in the receipts book ledger, and in 1930 the same expenditure was contained in a payments book with proper columns to facilitate an analysis of the items. This change of books had been made at Mr. Deane's suggestion, and he stated in his evidence that it was his suggestion in order to get an analysis of the expenses.

In these three years of Mr. Deane's every account was shown to Mr. Fetherstonhaugh and he approved of it, and thereupon each of them was submitted to Mr. Stokes, who discussed any items that required discussion with Mr. Deane before sending them to the Inspector of Taxes, who (subject to necessary criticism of details) always adopted them. Mr. Stokes was familiar with the course of his assistant's work, and any criticisms I have made upon Mr. Deane must apply equally to Mr. Stokes as being the person finally responsible for the method adopted and for the form of the certificate. On these three heads

of negligence in Mr. Deane's period I cannot find actionable negligence against the firm.

We come now to the years 1931 and 1933, when Mr. McClelland was the auditor, and to some of those years different considerations apply. His conduct seems to justify my earlier remark that it is an advantage to send a new auditor to the work from time to time. Mr. McClelland went to Mr. Fetherstonhaugh's office with Mr. Deane's audit notebook, and on his arrival asked Hill for the books specified therein. He received the costs furnished book and the payments book, but after he had checked the tots and taken out some of the figures from the costs furnished book and made an analysis of the expenses in the payments book which required consideration, he inquired from Hill as to whether there were any other books that would be sufficient for the preparation of a balance sheet which he thought would be of great value to Mr. Fetherstonhaugh. He was told that they only kept a loose rental for each client which was balanced at any convenient date, and that these rentals were written up, as regards payments, from the cheque blocks and, as regards receipts from receipt blocks. Hill told him that they did not keep any record of incoming cash. No books were mentioned as dealing with clients' money. After the approval of the account by Mr. Fetherstonhaugh, he took it to Mr. Stokes to sign and at that interview he explained to Mr. Stokes the unsatisfactory condition—in fact, "the mess"—in which the firm's books and records were. In sending forward that profit and loss account on June 9 to Mr. Fetherstonhaugh, the defendants wrote as follows:—

"Our Mr. Stokes will be glad to discuss the account in detail with you at an early date";

but after his conversation with Mr. McClelland, he added a postscript: "I have arranged for Mr. McClelland to look into the question of a cash book as soon as he is free." The letter without the postscript had been under consideration on June 5th, but between that date and the 9th, when the letter was forwarded and the postscript added, Mr. Stokes had seen Mr. Fetherstonhaugh in the club and told him that they had finished the checking of his books and the preparing of the income tax account, and that he would get it in a few days, but that his books were in a very bad condition and that for his own satisfaction he ought to know what his real financial position was; that he did not know whether he owed money or whether there was money due to him. After discussion, Mr. Fetherstonhaugh said, "Oh, very well, you had better put in what books you think necessary."

This is a very important interview for after that date Mr. McClelland extended his work, got books for Mr. Fetherstonhaugh, showed Hill how to write them up and did, in fact, himself write up the entries in the cash book and the ledger from April 5th to June 10th, and impressed upon Hill the necessity of their being kept properly in order to be used for a future balance sheet. Mr. Stokes said in his evidence that at this stage he was approaching the point where they would have prepared a full balance sheet. The inquiries and investigations and checking that they made with reference to this matter have been relied upon as showing that a balance sheet was necessary for the purpose of the profit and loss account and that Mr. McClelland and Mr. Stokes knew that. The subsequent history of these books is that Mr. McClelland procured and started for Hill a cash receipts book and payments book in a different form and a clients' ledger to record the income and outgoings on the estate accounts for which the firm were agents, this clients' ledger to be balanced on the same date as the profit and loss account. I have come to the conclusion that this question of a balance sheet and the new books and the projected investigation was a transaction independent of the profit and loss account for income tax purposes and that the profit and loss account for 1931 was completed before this question of the new books or a balance sheet was mooted. As regards the keeping of the books—while the cash book and the payments book were kept, the clients' ledger was never written up. Hill

was the person to have charge of this and it is obvious that he did not write up the clients' ledger, because if it had been honestly done it would have readily disclosed his defalcations. A strange fact came out in the evidence, that Hill was alarmed at the new proposal for books, thinking that a complete audit was to be made, and he, accordingly, during that year, prepared dummy receipts for the cash, thinking thereby to save himself if any inquiry were made. But, subsequently, when he found that a complete audit was not made and could not be made, he lapsed into his former dishonesty.

This first account of Mr. McClelland's followed the usual routine of inquiry from the Inspector of Taxes, and nothing turns upon that. In 1932 the reminder came from the Inspector of Taxes in June, but, on inquiries from Mr. Fetherstonhaugh, Mr. McClelland found that the books were not ready and had not been written up. Mr. McClelland said that he inquired for these books because he would have used them in the sense that he would have taken figures from them. From time to time until August excuses were made by Mr. Fetherstonhaugh for the great delay in writing up the books, stating that Hill had been very busy and had not sufficient time to keep the books up to date. Finally, in August, under pressure from the Inspector of Taxes, Mr. Fetherstonhaugh told Mr. McClelland to prepare the account "on the same lines as before." This was done, with the addition that at the same time Mr. McClelland vouched the bank lodgments and checked the tots on No. 1 and No. 2 accounts. His evidence upon this, which I accept as an explanation, is that it had nothing to do with the profit and loss account, but was for the purpose of reconciling the ledger balances on the two bank accounts, No. 1 and No. 2, and the pass book balances, with the ultimate intention of using the correct ledger balance in a balance sheet if a balance sheet were ever capable of being produced. He also made a bank reconciliation to test that the bank accounts were in agreement with the pass books. Though pressed upon this point, I cannot regard this additional work as being evidence of actionable negligence on the part of the firm in not carrying out a complete preparation of a balance sheet in the previous year, nor of negligence on Mr. McClelland's part for not completing the balance sheet for which he had not the material. It is, if anything, in my opinion, evidence of greater zeal on the part of Mr. McClelland to get Mr. Fetherstonhaugh's book-keeping upon right lines.

It was in this year, 1932, that the additional matter arose upon which it was sought to base the charge of negligence. In checking the costs furnished book Mr. McClelland found that there were items of cash received on behalf of the firm to the amount of £1,249 2s. 3d. which had been lodged to the No. 2 account instead of to No. 1. Without going into the reason why this had been done, Mr. McClelland put a note on the costs furnished book to the following effect:—

"Total amount still to be transferred to No. 1 Account at the sixth of the fourth, 1932, is £1,249 2s. 3d."

It was contended that this irregularity should have put him on the alert that something serious was wrong. I am satisfied from the evidence in the books that it was an ordinary practice of Hill's to pay the firm's moneys into the No. 2 account and at previous auditings in 1929, and 1930 and 1931, there was given on each occasion a direction to transfer to No. 1 account certain items marked as "lodged" in No. 2.

Hill apparently complied with this direction from time to time as it suited him. On the 1932 audit Mr. McClelland found that there was still outstanding this balance of £1,249 2s. 3d. and he directed specifically that this sum should be transferred. His object was, in my opinion, to get the figures of the firm on a correct basis as from 1931 (see Question 2407). When asked for an explanation of this Mr. McClelland said there was no more explanation of the wrong lodgment in the No. 2 account than of the bad system of book-keeping, as nearly everything was

being done wrong. (See Question 2410.) It seems to me to have been more in the nature of a book-keeping entry of a proper and necessary transfer to be made. At that time No. 2 account was in credit only to the extent of £58, but I am satisfied that Mr. McClelland gave no weight to the fact that carrying out his order would put it heavily in overdraft if the transfer was made forthwith.

When Mr. McClelland returned in September, 1933, to prepare an account for that year, he found that even then Hill had not written up the clients' ledger. He spoke to Mr. Fetherstonhaugh and to Hill about it and Mr. Fetherstonhaugh endorsed Hill's own explanation that he had been unable to prepare the accounts or keep things up to date because he was over-worked. Mr. Fetherstonhaugh told Mr. McClelland to go ahead and make the account up as in previous years. The only difference in the material this year was that the agency fees instead of being included in the costs furnished book were included in a separate account in the ledger. As before, Mr. McClelland made a bank reconciliation account so as to endeavour to get a balance in the ledger. He made up his profit and loss account as before from the costs furnished book and the payments book, with the agency fees from the new ledger account. I am satisfied that he was certainly doing his best to get the books into some sort of order so that he could produce a balance sheet later. But he was in the main foiled by Hill's inactivity. It appears from the books that the £1,249 2s. 3d. was not transferred from No. 2 to No. 1 until June 30th, 1933. If Mr. McClelland observed this in September, 1933, when going through the books he, having regard to Hill's methods of book-keeping, did not pay any special attention to it and was not made suspicious thereby, and I do not think that I can, with any fairness, hold him responsible in negligence for not making a thorough vouching in respect thereof.

Two other matters I wish to mention on the facts of the case. It has been stated that Hill's embezzlements were all of clients' money, which seems to be the fact. But as regards the preparation of a profit and loss account the state of the clients' money would not affect it. Further, I should draw attention to the fact that in respect of the books that were prepared and written up, that work was charged for separately as a separate item and not included in the audit fee for the profit and loss account.

My findings are as follows :—

- (1) The instructions given to the defendant firm were to prepare a report of profits for the Inspector of Taxes.
- (2) For this purpose, an auditor should, if possible, prepare a balance sheet in addition to a profit and loss account. The preparation of a proper balance sheet would have disclosed the defalcation.
- (3) A balance sheet under such circumstances should not be dispensed with save on the instructions, express or implied, of the client; and it may be implied from the nature of the work directed to be done.
- (4) In this case there was no proper bookkeeping material available for the preparation of a balance sheet.
- (5) There was only available the costs furnished book and the weekly cash summaries, placed before the auditors.
- (6) In the special circumstances of this case, the auditors were not negligent in accepting the assurances of the active partner that the costs furnished book and the weekly cash summaries contained the correct records of income and expenditure.
- (7) That the auditors were justified under the special circumstances in preparing the profit and loss account from this material and these accounts were in fact accurate in all respects.
- (8) That in the preparation of the profit and loss accounts there was nothing to reasonably arouse the suspicion of the auditors.
- (9) That the work done in reference to the new books and the reconciliation of the bank account in 1932 and following years was independent of the instructions to prepare the income-tax accounts.
- (10) That there was no reasonable or business necessity to vouch the agency fees.
- (11) That the vouching of the agency fees could not reasonably have been done in such a way as to disclose the defalcations.
- (12) That there was no actionable negligence or breach of duty on the part of the defendants in any of the matters relied upon.

It is unnecessary, therefore, to consider the question as to whether the amount of the defalcations by Hill would be recoverable as damages flowing from the breach of the contract. I therefore give judgment for the defendants, with costs.

INCOME TAX LAW CODIFICATION

The Association of British Chambers of Commerce has submitted to the Chairman of the Board of Inland Revenue a memorandum in relation to the report and draft Income Tax Bill prepared by the Income Tax Codification Committee, which was issued last April. The memorandum was prepared by a special Committee of the Finance Committee of the Association, and unanimously approved by the Finance and Taxation Committee under the chairmanship of Mr. Henry Morgan, F.S.A.A., and also by the Executive Council. Amongst the recommendations were the following :

That full allowance should be made for machinery scrapped, whether replaced or not, and that there should be more generous treatment of what is commercially regarded as revenue expenditure.

That there should be no limitation of the right to carry forward wear and tear allowances indefinitely unless there is a substantial extension of the period of six years for which trading losses can be carried forward.

That the rigour of the existing law in relation to deduction for expenses in the case of Employments should be relaxed.

That the cost of protecting as well as maintaining patents should be allowed as a deduction.

That the allowance in respect of children should be extended to cover apprenticeship or pupilage to trades or professions.

That, in reference to Super-Tax on undistributed profits of privately-controlled companies, the law should be altered so that the tax liability should not attach to the whole of the profits, but only to that portion which in the circumstances represents a reasonable distribution.

That in the case of holding and subsidiary companies, there should be a right to set off losses against profits in the various concerns, and where there is 100 per cent. holding, there should be one assessment for the whole group of companies.

That the taxpayer should be entitled to have issued from one district one composite notice of assessment for all liabilities under Schedules D and E, and that he should be shown clearly what allowances have been made to him and for what assessments they have been granted.

A CASE OF FIDUCIARY POSITION.

IN the Chancery Division on November 12th, Mr. Justice Clauson and Mr. Justice Farwell delivered their reserved judgment in an appeal by Mr. Alfred Greaves, F.C.A., from a decision of Judge McCleary, at Bradford.

The order complained of required Mr. Greaves to account for profit on shares in Smith, Bulmer & Co., Limited, bought from the National Provincial Bank, Limited, and to transfer the unsold balance to the Commissioners of Inland Revenue upon payment of the price he gave.

It was stated that Mr. Greaves bought about 15,000 preference shares in the company for eighteenpence per share and that as part of the same transaction the bank transferred to him 150,000 ordinary shares in the company without extra charge.

Mr. Greaves had sold about 2,000 of the preference shares at a profit of 4s. per share, and had transferred others to employees of the company at the price he gave for them, retaining about 10,000 preference shares and the 150,000 ordinaries.

Mr. W. N. Stable, K.C., and Mr. Tindale Davis appeared for Mr. Greaves; Sir Gerald Hurst, K.C., and Mr. Gerald Upjohn represented the Inland Revenue.

Mr. Stable explained that there was not and could not be any suggestion that the sale by the bank to Mr. Greaves was an improper sale.

The trouble arose because the shares were in fact part of a block of shares given as security to the bank by Sir James Wm. Bulmer, who was adjudicated bankrupt some time in 1932 and obtained his discharge in 1933.

What was said was that as Mr. Greaves attended meetings of the committee of inspection, as proxy for Smith, Bulmer & Co., Limited, who were creditors, he was in a fiduciary position. It had been held by the County Court Judge that in innocence Mr. Greaves had failed to observe the duties that fell upon him in that capacity when he made the purchase.

Mr. Greaves became financial adviser to the company in 1927 and was made a director two years later. He had no connection whatever with the private financial affairs of Sir James William Bulmer. When he bought in 1934 he never thought of any connection between the shares and the bankruptcy—which had been moribund for two years. He thought he was entering into an ordinary commercial transaction, and in fact the bank or their nominees had been registered holders of the ordinary shares for five years before the bankruptcy and of the preference shares one year before the bankruptcy.

Sir Gerald Hurst, K.C., said that in this case the Commissioners were not making "any suggestion against anybody," but they submitted that it was the duty of Mr. Greaves to disclose the offer he had received to the trustee in bankruptcy.

When the bank valued their security in 1932 they attributed something to the 521,144 ordinary shares deposited with them, and these in fact represented all but 200 issued by Smith, Bulmer & Co., Limited. The business was increasing under the management of Mr. Greaves and if the question of control ever arose these ordinary shares would have a considerable value. Yet the bank transferred 150,000 to Mr. Greaves for nothing in consideration of his purchase of about 15,000 preference

shares for eighteenpence per share. An opportunity of buying on such terms would have been bound to excite the interest of shareholders.

Mr. Justice Clauson, giving the judgment of the Court, said that at the date when the receiving order was first made against him Sir James William Bulmer was entitled to 16,750 preference shares in Smith, Bulmer & Co., Limited, and 521,144 ordinary shares. Together with insurance policies these were pledged to the bank as security for a debt of £56,000. At the commencement of the bankruptcy of Sir James William Bulmer the shares stood in the name of Branch Nominees, Limited, as nominees of the National Provincial Bank.

The Bank realised on the insurance policies, and in January, 1934, they sold to Mr. Greaves 12,500 preference shares and 150,000 ordinaries. Mr. Greaves had since sold some of these.

The question was whether Mr. Greaves was bound on equitable principles to surrender any advantage he obtained for the benefit of the estate.

Early in the bankruptcy of Sir James William Bulmer a committee of inspection was appointed. Smith, Bulmer & Co., Limited, was appointed a member of the committee, being a large creditor, and the company acted through Mr. Greaves, who was chairman of the board, and held the company's general proxy.

It was suggested that Mr. Greaves was not under the duties and obligations that by law attached to members of the committee. The County Court Judge quite rightly dealt with the matter on the footing that he was. Mr. Greaves had placed himself in the position of a member of the committee and it was too late to claim that he was absolved from the duties and obligations attaching to membership.

That members of a committee of inspection were in a fiduciary position had been established for 22 years. Therefore, unless there were full disclosure, or possibly the leave of the Court, Mr. Greaves was precluded from entering into a transaction where he had a personal interest conflicting with that of the estate.

In this matter of the purchase of shares it was obvious that there was such a conflict of interest. The purchase put an end to the equity of redemption in the shares purchased. It was the purchaser's interest to buy as cheaply as possible and that of the estate to get the best price possible.

The County Court Judge found that Mr. Greaves acted in innocence, that he did not appreciate that he was not as free to buy as any ordinary purchaser, that he did not know the shares belonged to the estate—subject to the bank's rights.

The failure of Mr. Greaves to appreciate the peculiar position absolved him from all suspicion of moral obliquity, but it made no difference in this case.

Ignorance absolved him from blame for selling shares and protected him against the full measure of the relief that might have been granted if he had known.

In this case the order of the County Court Judge merely required him to surrender advantages obtained by a purchase that was made when he did not know the facts.

That was right. The appeal would be dismissed with costs.

An order was made accordingly but leave to appeal was granted.

The Professional Man and the "Distribution of Leisure" Problem

A LECTURE delivered before the Incorporated Accountants' Students' Society of London and District, by

MR. COLLIN BROOKS, M.C.

EDITOR AND CITY EDITOR OF THE *Sunday Dispatch*.

The chair was occupied by Mr. WALTER HOLMAN, Vice-President of the Society of Incorporated Accountants and Auditors.

MR. BROOKS said: It is a commonplace that those events which most change our lives are least recognised at their inception. That is largely because vital changes are rarely dramatic: they are gradual. I have often stood in a paper mill watching one of the most interesting processes of modern industry. Down a long, broad trough flows a liquid. Somewhere on the journey that liquid becomes palpably paper—but at what exact point the change occurs the eye cannot detect. So it is with the great changes of professional and business life. Your own learned profession has enjoyed over half a century of recognition as a learned profession, but men like the late Sir James Martin would be the first to admit that the change of status which such recognition marked was not brought about by any charter or certificate of incorporation. It was brought about because the whole character of business and political life had itself been slowly changing. The actual, formal recognition really marked the culmination of the change. The clamour of your profession for recognition really meant that you had recognised that culmination first.

Those of us who are cynical about affairs are apt to affect a certain derision for the politicians. We regard them at best as the tardy functionaries of business, and at worst as capering parasites. We discount the effect which political action can have upon the real working life of the community. We curse specific interferences or we clamour for occasional protections, but on the whole we say:

"Of all the ills that mankind can endure

How few that Kings can either cause or cure."

It was not the politicians who gave Accountancy its present honourable standing; it was Accountancy itself. It was not the politicians who reformed the abuses of company practice; it was new company practice, which the politicians tardily registered. Such an attitude is, I think, wholly sane and right, if it is adopted with reserve. It is insane and wrong if it leads us to forget that the great changes wrought in our individual and professional lives often have their beginnings in the political sphere, where we all operate.

Most of the necessary conditions to the existence of recognised professional accountants, for example, were so born. The law of limited liability, popular education, the various Companies Acts, were all conceived in the political mind of the community, and the professional politician was compelled, either by definite agitation or by some instinctive recognition of the community's will, to translate the readiness of the nation for actual change into formal and legislative change.

Every age has its great waves of change—in one it is the transition from feudalism, in another the change from competition to co-operation and combination. These changes seem at the time to spring from the emotions, but viewed in perspective they are usually seen to be the natural, the inevitable, effects of man's mechanical

ingenuity. The wheel forces the pack-horses from the tracks to make way for the wagon on the road: communications quicken: production increases by the coming of steam—the skilled worker appears to oust the unskilled hind—the whole relationship of each section of the community to the others is changed in need before it is changed in act and fact.

The contemporaries of Stephenson and Arkwright could not deduce from the change they saw slowly taking place about them the rise of professional accountancy, but it was implicit in the new conditions of their time. They could not deduce the coming of limited liability, although the possibility of large scale production and distribution, the exploitation of great markets by the application of large sums of capital gathered from a wide-flung area, seem—as we read economic history backward—to imply the eventual necessity for some such limitation of risk.

Changes that began unrecognised under the eyes of those contemporaries look to us—who have seen their completion—inevitable. How is it with changes that have been begun under our own eyes? Have we—either as citizens or as professional practitioners—even begun to assess them at their true value?

I wish to-night, with my customary audacity when I visit your Society, to discuss what to me seems to be the most vital of all the changes of our time. It is a change of view. Some years ago an astute mind—we need not ask whose—broke into a world-wide political discussion with the sage remark, "There is no such thing as an unemployment problem; there is only a distribution of leisure problem." The astuteness of his mind was not demonstrated by his belief, but by the way in which he expressed it. After all, the Luddites, those blind frame-breakers of the early industrial revolution, and the "ca' canny" trade unionists of the early 1900's, had the same belief. In the United States at the beginning of the great slump the same belief was the very basis of a party called "The Technocrats."

But to believe with the Luddites (and with Samuel Butler) that the machine is the enemy of mankind, to believe with the trade unionists that it was good to slow production for the benefit of a selected class, was a terrible economic and social heresy. It was only when the belief was presented from its other side that men realised that a world which produced labour-saving machinery and then forbade it to save labour was a world that needed adjustment. It was only when unemployment was called by the happier name of leisure that men realised that the ingenuity which quickened communications and production and then prohibited to the mass any opportunity to consume the accumulating products was not ingenuity at all.

EMPLOYMENT AND LEISURE.

I think there can be no question that the mass of mankind is now quite definitely thinking of what it once called its unemployment problem as a distribution of leisure problem. On the employing side men like Henry Ford have long recognised that the workers must be given leisure in which to consume their products or those products will accumulate and thus perpetuate the cycle of slump and boom, boom and slump—which is nothing but a cycle of over-production followed by either destruction or the virtual giving away of products. On the workers' side we have the growing cry for the 40-hour week. In some trades—my own trade of journalism is one of them—we already have a standard week for some of the technical workers of under 40 hours.

I wish at this point to make it quite clear that I am not committing myself to a support of the belief that the

extension of leisure is a good step in the progress of a world that is still unevenly provided with those things which we have come to consider the necessities of civilised life. Whether the world needs more leisure or a greater production coupled with a saner distributive system is a matter outside our immediate concern this evening. I am committing myself to the belief that, whether for good or ill, in the industrialised nations the spread of leisure is economically and socially inevitable, and that this is the development which we have to face. I base the inevitability upon the two things which I have just adumbrated—that the workers *en masse* make the short working week a political demand, and in countries like France have been strong enough to enforce it, and that the employers are rapidly coming to the Ford viewpoint that consuming-time is a necessity if products are not to clog the warehouses and retail departments.

The politico-economic problems which are created by the spread of the demand for the better distribution of leisure can be broadly stated. In Great Britain we have taken for granted that there is nothing illogical in expecting most men to work eight hours a day and forcing some men to rest twenty-four hours a day, but the older industries like cotton have never taken that for granted. In the cotton industry until very recent years they did not speak of unemployment, but of short-time—that is, they actually distributed the enforced leisure caused by the unscientific incidence of full order books and empty order books, by boom and slump. If—however reluctantly—we are to contemplate an industrial state wherein working hours are not governed by the rise and fall of demand, but by a refusal to permit workers to produce or to labour for more than a minimum number of hours per day or per week, the whole fiscal system based on the assumption that relief must be given to two classes of idle workers—wholly unemployed and seasonally unemployed—will have to be changed. At the basis of that system is the principle, very rarely enunciated, that the worker who is lucky enough to have a job must contribute in money to the support of the worker who is unlucky enough not to have a job. But a redistribution of leisure, through the enforcement of a shorter working week, means that the employed will no longer earn and give back. They will forgo some of their earning power. On the surface that should mean no change in the standard of living, and taking the populace as a whole this is true. But it must mean a tremendous shifting of the incidence of prosperity. How to ease that shift is the initial problem.

Secondly, workers are divided into two kinds—the productive workers whose products are exportable and the ancillary workers whose services do not affect the national trading account. Already great firms like Boots, Ltd., and Benn Brothers, Ltd., have a five-day week. Their gift of the extra leisure to their employees is, however, obviously a different matter from such a gift in the iron and steel trades, or the coal trade, or the radio industry. To put it at its simplest—one of those ridiculous simplifications which must be used from a lecture platform—if Boots can present their huge staff with an extra half-day a week in which to ride bicycles and so contract aching muscles and great appetites, which lead to a demand for the liniment and indigestion pills provided by Boots, the turnover of the firm will increase and the unit costs will fall, and all will be well. Similarly, if Benn Brothers can give that extra half-day in which their staff can potter about the garden and thus feel the need for subscribing to the gardening paper published by the firm, circulation for that paper will rise, advertisement rates will go up, and all will be well. But if some heavy industry has to pay the same wage for a

40-hour week that it has previously paid for a 44-hour week, costs will rise and the price to the consuming foreigner will have to rise too, unless patient shareholders will forego profits, and even if patient shareholders forego profits, the attraction of new capital will be difficult.

In other words, if the whole of the working population of Great Britain found itself with four hours more leisure each week and no fall in wages, the home industries could expect to benefit, and the exchequer could expect to benefit. If the whole of the human family enjoyed the same boon, every industry—on the Ford theory—could expect to benefit. But if the manufacturers of Britain found their labour costs rising because they had to subsidise the new leisure of British workers while their competitors suffered no such handicap, export markets would suffer. There is problem two—and it is far from insoluble.

POSSIBLE SOLUTIONS.

There are many possible solutions. By currency manipulations under our present system of a floating currency, exports could be given a camouflaged bounty. By arrangements with the trade unions, the shorter working week could be coupled with a new shift system, enabling more to be taken out of the machines. International trade agreements might follow the Schacht plan, and compel a balance of trade. All manner of contrivances are possible, although none is desirable to minds trained to believe that the utmost freedom of trade is the ideal and any form of artificiality is at best an unwelcome expedient.

The third problem is whether so great an increase of general leisure as the machine age seems about to make possible, and even unavoidable, can safely be left unorganised. In studying the broad aspects of the change that problem demands especial attention from people like ourselves, whose function it is to analyse and direct the activities of others.

It may surprise some people that such is the function of the accountant. but I, for one, have never believed that accountancy, once out of its swaddling clothes, can remain a mere checking and passing industry. The profession of accountancy is like the profession of medicine—its primary function of diagnosing financial ills has already broadened. The old general practitioner who came in once a year and gave the patient an overhaul, or who was called in if things went wrong, has already begun to give place to the modern Medical Officer of Health, who tells the patient how best to shape his life.

Now, to my own mind, between organising other people's leisure and taking it from them there is very little difference. Compulsory games at school, for example, seem to me a contradiction in terms. Leisure is only leisure if you can enjoy it as you think best. In the Totalitarian States on the Continent the leisure of the people is pretty well organised. In this country it is not really organised at all, except by the social conventions which compel tired, middle-aged gentlemen to stride with a false cheerfulness round 18 holes when all they really desire is the blessed languidness of the club house.

But—in despite of my personal conviction that if you leave people alone they will fill their leisure adequately and decently—there is something to be said for the belief that even in a country like this or like America, where popular education is old and of a high standard, the great masses are not yet ready to fill more leisure time than they now possess, and that any further accretion of leisure would result in some moral and physical degeneration due to a misuse of that time.

THE REDISTRIBUTION OF LEISURE.

If this be so, it would seem that the best way to redistribute the leisure which in theory a machine age gives is the way that has already found a fairly general advocacy. That way is the way of a shorter working life, rather than a shorter working week or a shorter working day.

When I was a boy the prospect of an eight-hour day was to the older generation the prospect of national doom and disaster. The Shop Hours Act met with strenuous opposition: it was honestly believed that working shop assistants eleven hours a day on Saturday was part of the essential system of keeping human life from destruction within these islands. When the keeping of children at school to the age of 14 was bruited the same alarm was caused. The same ruin was predicted for industrial Britain as was predicted when Shaftesbury protested against children and pregnant women being worked frightful hours in bad conditions in the pits and factories of my native county.

To-day a Government which is accused by its opponents of being only nominally "National" and actually reactionary Tory is pledged to a raising of the school age to fifteen. In the lifetime of anybody still in middle age, it has been made possible for men and women of sixty and seventy to retire from the labour market; and already "retiring pensions" at fifty-five have been seriously discussed, not as a sedative to an unsettled working class, but as a solution of the problem of how to cope with machine production which has outstripped in ingenuity the currency and distributive systems of the world. So that when I speak of the inevitability of a drastic redistribution of leisure and the strong probability that it will take the major form of a shortening of the working life, I am not discussing any William Morris-like Utopia or nightmare. I am discussing the development which is taking place rapidly before our eyes.

But, you will see, as in all economic developments, it is impossible to achieve uniformity. The movement for the short working week and the trend towards the short working life go forward together, and we are obviously entering a period of transition in which some countries and some industries in individual countries will find it difficult to reconcile their almost haphazard adoption of one method with a political sweep forward towards some other method.

Within this transition period, also, there must come the bridging of the gap between the backward and the forward races. It is quite obvious, for example, that in Japan the factory worker will not always be the amenable creature that he has been for so many generations. The growth of literacy allied to cheap printing plus the eye-opening effects of the cinema and the mind-opening effects of radio tends rapidly to bring backward races to the level of forward races. The backward races, in other words, will shortly demand that the worker of the machine shall receive a leisure product from the machine he works.

Two points must occur to the mind at this stage of our examination of these matters. One is: can the world afford to slacken its effort by granting a shorter working life without causing such a diminution in the standard of living as shall cause social unrest? The other is: with the working populations receiving more time in which to consume, will not that increased demand have the paradoxical effect of making leisure less possible?

The world's capacity to afford leisure is, I fancy, far greater than the old-time orthodox economists ever thought possible. What is the position? In modern civilisation very little work—relatively speaking—is employed upon the essentials of life. The production

of real and vital wealth, such as iron, steel, coal, power, food products, and the management of distribution demand much less labour than they did a generation or two ago. The mechanical tractor has replaced man-power and horse-power in the fields, the mechanical coal-cutter replaced miners at the coal face, the automatic winder replaces hundreds of men and women who used to tie or bind products for transport, and so on. If anyone pays a visit to the engine room of a great ship like the *Queen Mary* or the *Empress of Britain* he must be struck by the complete absence of sweating, toiling men firing the furnaces. Those men have been replaced by suction tubes which take a semi-liquid fuel straight into the furnaces. Anyone who has inspected hydro-electric power stations knows how few are the leisurely attendants who control the making of that form of power.

Where men and women exert themselves mostly in a machine age is in rendering and exchanging services that neither produce nor consume wealth in any quantity. The machines, we must remember, not only do the work of many hands, but they also do work that hands could not do. To take the most familiar example, a machine can strike an iron rod with the strength of a hundred men—but a hundred men could not strike an iron rod simultaneously at all. At a place like Dagenham a motor car can be produced in a very few hours that would take fifteen men a year to make, or one man fifteen years—but one man could not in reality make it at all. The machines, in short, have an almost infinite capacity for producing wealth and making its distribution possible—by wealth, of course, I mean the real wealth of mankind, not the money by which it is represented. The machines go further—they make available natural resources otherwise unavailable. The diamond drill and the machinery of the Rand have uncovered minerals in Australia and Canada that were not in our grandfathers' reach. No—the wealth is there, and relatively little labour can render it available.

On the other hand, as I have said, in the exchange of personal services men consume very little of that wealth. If your chairman is kind enough to stand me a dinner at the Ritz, or the Carlton, or the Savoy, the amount of food and drink that he and I will consume, the amount of clothes and upholstery we shall wear out, plus the food and wear and tear of textiles, woodwork, coal, light and the like consumed by everybody who has had a hand in making that meal possible—a vast army ranging from the potato growers and stock breeders, through a host of warehousemen and sailors, to the head waiter whose starched white waistcoat represents in its turn the proportion of wealth consumed by sempstresses and laundresses—all this consumption of wealth, I say, would not represent much in man-time if it could be segregated and surveyed. What we do largely consume is the time of a host of functionaries—page-boys, advertising agents, book-keepers and so on—and of that the world has a large margin. We need not fear, then, that the world cannot afford the increase of a few hours leisure spread over that wide range of persons.

Similarly, when the race has more consuming time, its demands will not fall very much more heavily on the primary servants of humanity—it is not likely to consume very much more grain or meat or hops or malt. It is likely to demand more time from the secondary and tertiary functionaries, and it is just this time which is available. A football team can as well play three matches a week as play one match and two practice matches. An automatic adding machine can as easily run up three accounts as one. That horde of waiters that besets every eating house can as well spend a short working day

waiting in the professional sense as merely waiting for someone to wait upon.

On those very sketchy general considerations I think we need not fear the rapidly growing change in the work and leisure habits of the race. Whatever cause for fear there may be is not general, but particular and individual. When Britain passed from the age of stage coaches to the age of railways she might be emerging into a more spacious era, but it was very poor fun for the stage-coach proprietors and drivers and for the innkeepers. When excavating machinery made road repairing and building a matter of quick simplicity, it was a benefit to the race, but it was rough luck for the Irish navvies. Burroughs' adding machines are a boon and a blessing to the Burroughs' shareholders, but they don't altogether rejoice the hearts of bank clerks.

As a community we have to face the fact that the redistribution is going to mean a dislocation that must hurt some people; and as professional men we have to face the fact that that dislocation must affect the trend of our own professional duties.

SPECIFIC EFFECTS ON ACCOUNTANCY.

Let me now wind down to some of the specific effects that I foresee as affecting your own profession. First of all, the tardy adjustment of working time to the machine age must mean an increase in political artificialities. While some nations are rapidly applying machines to leisure and eliminating masses of unemployed by some form of labour sharing and others are still able to employ their people for long hours on a low standard of living—thus having neither unemployment nor a need for labour saving—we can expect both tariffs and a growth of the new barter agreement between nations of which Dr. Schacht is making a temporary success in Germany. In such a situation costing becomes supremely important to the manufacturer. When costing grows in importance the demand for the costs accountant grows likewise. Similarly, that race of professional men who may be lawyers or accountants or merely specialists, who are adepts at mastering, using or evading tariff schedules and tax scales must come into increasing demand.

To illustrate what I have in mind, let me remind you that if I am invited by Mrs. Bloggins to her bridge party and she gives me a ready-mixed cocktail, under some fancy name, that ready-mixed cocktail is probably not the result of somebody's careful study of the human palate and stomach—it is the result of somebody's quick apprehension that the scale of import duties is such that a judicious mixture of spirit and wine enables the whole concoction to scrape through at wine rates, and that somebody's distilleries can therefore make a more handsome profit than would otherwise be possible. That ready-mixed cocktail, in short, is not the fruit of the trained skill of a blender of wines, but of an accounting mind which understood its way through the list of duties.

Just as an era of high taxation brought out in great quantity the income tax expert, so a period of artificialities designed to adjust costs between backward and forward nations at a time when the forward nations politically are demanding more leisure will bring out tariff experts. They will become, indeed are becoming, part of the costing systems of industry. It is, I suggest, in the hands of your profession whether or not those experts are to be qualified accountants or only business functionaries from the costs departments of the various houses.

A secondary effect of an era of high tariffs is always the endeavour to leap over or creep through the barriers by foreign registrations. I expect in the next ten or twenty years to see an enormous growth of the foreign

subsidiary company. That growth, as you know, has already been large. With it goes the perpetual demand for consolidated balance sheets, made compulsory by law. The simple technician who can audit a simple balance sheet must give place to a more complex accounting mind because of this demand.

Quite certainly the struggle to fight against unevenly costed competition both in home and neutral markets will affect sales technique. Even if there are no subsidiary companies to do the making and selling of products abroad, quotations will have to be much more close and scientific than they have been in the past. We can assume that invoice departments and counting houses in the future will demand a much higher standard of business education, with a wider knowledge of foreign currencies methods. It is more than possible that big business will actively encourage the taking of professional qualifications in their rank and file personnel. In big shipping lines even the junior officers, the second and third mates, have to possess an extra-Master Mariners' certificate: that example may be followed in business.

I am the more prone to expect this development because in a country like our own, where the politicians are already pledged to a higher school-leaving age, and where leisure for the workers is become a cult, the general level of scholastic education must rise. Already it is grumbled that unless a boy or a girl has the school-leaving certificate or has matriculated, entry into clerical employment is difficult. From a general scholastic qualification to a professional qualification is a short step.

THE NEED FOR SPECIALISTS.

If I am so far right in my deductions, two things present themselves to your generation—one is the need for specialists and the other is the coming need for tutorial experts. It has been a common complaint, I fancy, that all the learned professions, your own included, have been turning out too many practitioners. I hear dreadful tales of highly qualified men glad to take clerkships in Buenos Ayres and other foreign centres at the equivalent of about two pounds a week. I hope those tales are wildly untrue. They no doubt have a basis of fear, if not of fact. But whatever overplus may seem to threaten, it would seem to me that the trend of the time economically is such that very shortly in the ways I have indicated demand for professional services will rapidly increase.

There is yet another phase of this transition period. We must prepare ourselves for a great growth in bureaucracy. For my own part I cherish a deadly hatred of bureaucracy. I have grown grey and bald thundering against the trend towards State centralisation, against State control, and even against that imitation bureaucracy which we get to-day in big businesses. But one's own desires are not in question. Most of us have thundered or growled against the growth of militarism, but that does not change the fact that we are seeing the growth of militarism. We must face the facts as they are. I need not again stress that where bureaucracy increases the demand for professional services increases, either within bureaucracy or outside it to outwit it.

THE SYSTEM OF WAGE PAYMENTS.

I come now to what is probably the most important aspect of the economic change of which the 40-hour week strikes in France have been the latest symptom. If we are to see a diminution of working hours, either through the shorter working week, the shorter working day, or the shorter working life, can the system of payments under which we have so long been accustomed to live survive?

Some of you, no doubt, have amused yourselves with the novels of Mr. P. G. Wodehouse. If so, you will recall the constant warning "Never confuse the impossible with the improbable." The wage—the salary—the fee—the honorarium: we have had so many centuries of these forms of remuneration that we are apt to regard them as fixed in our national life as by some divine fiat. The rise of the trade unions and the acceptance of the principle of collective bargaining and the minimum wage; the grudging acceptance in some trades of profit-sharing systems or worker shareholdings; all kinds of bonus systems—these have not materially altered our system of rewards. The complicated method by which a coal miner's wages are determined; piece rates in other industries; the system whereby saleswomen in big stores receive a flat wage plus "spiffs" at sales times, all these are based when all the camouflage is shorn away, upon the old, the age-old, theory of a fair wage. They are based upon the need of the entrepreneur to be able to cost his primary expenses before he can put a price on his product. That basis seems unalterable. But I think it behoves those of us who are concerned with detecting economic chances and changes to realise that it is far from unalterable.

If in the course of the next generation we are to grow accustomed to an industrial and business organisation wherein people do not enter the labour market until they are fifteen or sixteen years of age and prepare to leave it before sixty, and if concurrently with this change the standard working hours are to be lessened to forty a week, it seems improbable that a system of wage payments which served when labour was only a commodity, a commodity to be bought in the cheapest market, will continue to serve under the new conditions.

He would be a daring speculator who tried to forecast just how the system will alter. Some economic thinkers have foreseen the day when the individual worker will not have a direct relation with his employer, when guilds will hire out labour *en masse* and receive the payment for it, just as a power company receives payment for the power it supplies. Personally I do not anticipate such a drastic change, or anything of that kind. But I do think it probable that an experiment tried successfully in Western Australia may be revived—that of basing the workers' wages on turnover. In Australia that experiment ended because the trade unions at large objected to the isolated betterment which it gave to one body of workers.

We know that most organised bodies of workers object to any replacement of flat wage rates by any system of profit-sharing, on the understandable ground that profit can be manipulated. But no such objection would hold good to a wage based on turnover. From the viewpoint of the employer of labour a wage-tax on turnover would offer certain advantages, not least that of enlisting every member of the personnel on to the side of rapid and economical production. If such a change comes it must perforce be gradual, but the very gradualness of such a change means, again, a widening scope for the professional classes, the lawyers and the accountants.

THE EFFECT OF LEISURE ON DEMAND FOR GOODS.

There is yet another aspect of any concerted redistribution of leisure which has to be pondered. If great masses of the community are to receive more time in which to consume the products of their own and other people's labour we may expect effects similar to those which follow a rise in the wage scale in normal times. There will be a demand for the cheaper luxury goods—radio sets, sports equipments, and the like—and, judging by the trend of the past twenty years, that demand will

be largely financed through consumer credit, or (as old-fashioned people call it) hire purchase. As you are aware, gentlemen, there are several ways of arranging consumer credit, but my observation leads me to believe that the most popular way is by the bill of exchange. Since the development of the cheque-book habit, and since the joint stock banks found it more profitable to provide overdrafts than to discount bills, the bill of exchange has somewhat fallen into disuse. One of the possible effects of the redistribution of leisure may be to bring it back again. I certainly feel that if I were at the outset of a career in business I would make an effort to specialise in the technique of consumer credit and the use of the bill of exchange.

So far in attempting to discuss the wide ranging effects of shorter working hours and the application of the machine age to popular leisure I have shunned what to many must be the grey—or perhaps even the black—side of the picture. The theory behind the cry for shorter hours is that only by giving the masses time and means to consume the fruits of their labour can you avoid recurrent congestion of goods. Either consumption must be stimulated, and as far as possible evened-out, or the familiar cycle of glut-wait-and-restarted-production must continue to afflict mankind. Either you must enable the human race to consume its products or you must continue to face years when coffee and wheat and rubber are burnt at their source, when fruit is allowed to rot because it will not pay the expense of marketing, when social discontent is fostered because poorly clad people are aware that warehouses and shops contain undistributed garments. Merely increasing the means of purchase by some form of currency manipulation, it is held, will not solve the problem because consumption will still be uneven.

If the world were one big family, one economic unit, there could be no gainsaying that if machines and scientific methods do not mean more leisure, they merely mean insanity. But the world is not one big family, it is not a single economic unit. In the division of units Great Britain is unfortunately placed. She is highly industrialised and is at the centre of the demand for leisure. But she is a beleaguered garrison of forty-seven million mouths which must be fed by imports and largely amused by imports. To anyone who has studied trade cycles intently it is obvious that whenever Britain experiences a trade boom in her own market, that boom is quickly followed by an unbalanced overseas trade. The reason is simple—as far as any economic complexity can ever be simple. When the masses of wage-earners begin to enjoy a surplus they turn instinctively to those very natural satisfactions of the human being—a more varied table and more toys to play with. The varied table and such toys as motor cars, radio sets, cosmetics, fancy garments, generally mean imports—and the gap between exports and imports widens without any invisible exports being able to bridge it.

One thing which must follow extension of leisure over great masses is a boom in the home market—amusement caterers and the like enterprises will benefit from the new demand. Even if the extra four hours a week are spent pottering about the garden, seedsmen and implement sellers will feel the benefit of new demand.

I have already suggested that shorter working hours unevenly adopted throughout the world must mean a continuance of tariffs and elastic currency. But can anyone be certain that by raising import duties, and thus discouraging imports, and by lowering the pound, and thus encouraging exports, the State can keep pace with public demand for imported products or find a just balance

between the benefit which a cheap £ means to immediate exports and the danger it implies, through high raw materials, on later exports? In other words, is there any means possible to prevent the transition period proving fatal to this country?

GENERAL OBSERVATIONS.

Whatever our faith in democracy, gentlemen, we may be very sure that the ordinary masses of the electorate will not ponder these things very deeply. We can also be sure that even those of us who are qualified by our professional training to grapple with such matters will for the most part be too busy pursuing our daily work and pursuing those satisfactions for the sake of which daily work is done to do very much else than take each change in the situation as it arises. In the future, as in the past, the chances are that we shall be content to try to muddle through, and be very surprised and angry when we are hit by misfortunes that by a little foresight and organisation we might have avoided.

We have, however, in this generation one towering advantage over our forefathers who were swept into the middle of the first industrial revolution—discussion is freer, wider, and more intelligent. Societies like your own are able to consider great economic trends free from any political bias or intention. The wireless is able to communicate ideas quickly: the cinema is able to bring home to even unimaginative minds the actualities of working life in other countries and in other avocations.

You, at the beginning of your careers, can at least see which way the economic wind is blowing. You can ponder, if you cannot accurately discern, what trades and industries are being moved towards prosperity, what official channels are being widened, by that economic wind. You can help to guide your own profession, and through that profession help to guide the community. It was my vivid realisation of that which prompted me to suggest to your Secretary that we might legitimately to-night discuss from the angle of the professional man what is undoubtedly one of the major changes in human life—the tardy and haphazard, but very real, application of the machine age to the consuming rather than the producing life of the people.

DISCUSSION.

Mr. W. J. BACK (Incorporated Accountant): May I suggest two things? First of all, Mr. Collin Brooks took it for granted that the five-day week, or the reduction of the hours of labour, would increase costs, and that in certain industries it might have disastrous effects. It happens to be the case that in certain industries—one of which I have in mind—where a five-day week was adopted, they have discovered that the production per worker is greater in five days than it was in five and a half days, and therefore costs so far from increasing by the reduction have been reduced. The second thing I want to say is this. I was interested in what the lecturer said as to lopping off portions of the working life, because of some notes I have been looking at in relation to affairs in Germany. A larger amount of time spent in physical training in youth—labour, drill, games and other things—must mean that a man who intends taking a university career will not be able to start work until later. It is said that in Germany at present he will be 26 and, if he happens to be a doctor, 29 years old. The contention of the article I read was that the probable result would be that the Germans would cut down some of their educational time so that the man could get to work earlier. That would have the effect of taking from our German friends the reputation for high and exact scholarship which they have had for so many years. But it may be, if there is anything in what Mr. Collin Brooks says as to the lopping off of a period of the working life, that these people are showing us a way that will commend itself to us; a longer period of education before beginning work.

The lecturer remarked that he thought experts on income tax was a new occupation or profession. I was to-day looking at the joint transactions and lectures delivered to Chartered Accountants' students in 1889. One lecturer then said it was agreed that all accountants ought to know something at least about taxation, and he proceeded subsequently to give two lectures that told them something about it and he was going to give them a third lecture which seemed to be almost all there was then available in print. Evidently, therefore, the accountants of that day were not experts. As to accountants specialising in certain things, the lecturer might not be aware of the fact that a number of years ago Mr. Pixley gave a lecture to accountants in which he suggested that the time would come when there would be an Order of Consulting Accountants who would do no actual accountancy work but would be merely consultants. He was laughed out of court at the time, but it may prove that he was a generation in advance, and Mr. Brooks may agree with him as to its desirability.

Mr. Brooks: I was by no means certain that reduction of hours means an increase in costs. I stressed it because it undoubtedly does affect some industries. I am always very strongly reminded, from that point of view, of the experience that industries have had in welfare work. The Diamond Match Company of America when it came over here and had its morning break for cocoa, established dental clinics, and that sort of thing, was regarded as being on the road to insolvency, or at any rate far too philanthropic for business; but its experience 40 years ago was that the rest period and attention to the rhythm of fatigue gave a greater output. I believe a five-day week would stimulate production so that unit costs would fall. Germany, I think, is a very dangerous country to discuss or to argue about. I mean this, that we are none of us yet in full agreement as to what Germany is really doing, and why. If any nation is to lop off the beginning and the end of a professional life, it may be from some motive entirely outside the range of economics. It is impossible to judge the ultimate effect, but I do think myself that when you have people kept at school for a longer period, you will find that the professional status and the scholarship of the professions will increase enormously.

Mr. J. M. KEYWORTH (Incorporated Accountant): Does not the lecturer think that in the change which he envisaged, the community will lose by the curtailment of genius—I refer to such professions as those of the journalist and musician? If their output is to be curtailed by the shortening of their working life, would not that be a loss to the community? Or does he think that output should only be curtailed in the case of unskilled workers? Then there is another point which, perhaps, is not germane to the present discussion, but it has arisen during the past week. Numerous people seem to be objecting to Japanese-made flags being waved by British school children at the Coronation. Does Mr. Brooks think there is any substance in that argument, or does he think that the people who are making those objections have only "one-track" minds?

Mr. Brooks: That is very dangerous ground. With regard to your interesting point about the curtailment of creative work, when we get more accustomed to the idea that machines and scientific production should give us more leisure, I think one of the ideas will be that trades like my own will not be considered as work. At the present time I make my living in spoiling paper by dissertations on various things. (Laughter.) They pay me well for that and I enjoy it. It is not "work" in the general sense. One of the things that will follow will be that we shall narrow our definition of "work" considerably. The question of the flags is obviously far too dangerous for me to go into it at this non-political moment.

Mr. W. DOUGLAS MENZIES (Incorporated Accountant): Might I ask at what stage in the developments the lecturer has envisaged will accountancy achieve amateur status?

Mr. Brooks: I do not think it will ever reach amateur status because it is so much like work. (Laughter.)

Mr. H. W. BROWN: I have heard repeatedly lately that the population of these islands in the next 50 or 100 years will be something like ten millions. Surely this will vitally affect the whole question?

Mr. BROOKS: I take it you are referring to the reduction of population by natural means. There was one whole section of my lecture that I did not inflict upon you because I had not the time. But I will tell you the position; it is a very commonplace remark, and I apologise for it, but the one great thing about machines is not that a machine will do the work of 100 men, it is that a machine will do the work that 100 men could not do. For example, a machine can hit an iron pile with a force of a hundred hammers, but a hundred hammers could not hit the iron pile at all, because there would not be room for them. If machines are properly applied, the stage will very rapidly come when the number of hours those who attend them will be required to work will be ridiculously small. We have been talking about a five-day week, but it is quite conceivable that you might have a five-hour week, and the production of your machines will not be affected by the mass of your population or the smallness of it. The population factor would cease to have the enormous importance that it has had hitherto.

Mr. D. MAHONY (Incorporated Accountant): I came here to-night rather under the false impression that we might be told what we could do with our leisure time, and I began to wonder how much leisure time the average accountant really has. I think that as regards the average accountant—and indeed the average professional man—if he is fully employed in his business, he has very little time or energy left for doing anything of much consequence outside his business. I was very pleased to hear Mr. Collin Brooks painting a picture of the future of the accountancy profession. I rather gathered that we were going to earn £10,000 a month of which £9,000 would be paid back to the State, and that we would be required to work only two hours a day. (Laughter.) I think Mr. Collin Brooks must contemplate in that a nationalisation of the accountancy profession, because I cannot see how I, for instance, could be compelled to work only two hours a day. Nor do I see that I as a practising accountant could be compelled by Mr. Brooks to retire at 50 and sit, I suppose, in philosophical contemplation of the world going by for the rest of my life. I think I should very strongly object to that; I should want to be doing something rather active from 50 onwards. I am wondering how you propose that professional people who are employed at present for the skill they are supposed to possess can be compelled to retire from business without nationalisation of the professions.

Mr. BROOKS: I am afraid you must have misunderstood me. I did not suggest that this trend was affecting the professional classes. The whole basis of my assumption was that in the great mass of industries where labour is controlled by trade unions, the thing is already on us. The only occasion when an accountant could be compelled to cease from working, I imagine, would be in the case of an accountant who is employed as a staff member in a business. The suggestion that the ordinary professional worker would be taken by the scruff of the neck and dragged away from his desk did not enter my mind. My suggestion was rather the other way—that the leisure of the mass-producing worker would make a bigger call on the professional man. Although I said that accountancy looks like work, it is not "work" in the ordinary sense—in the sense that industrial work is. I did not imply that professional men were all going to be dragged on by some Act of Parliament; I said that the trend was there, whether we like it or not, and that is a thing the professional man has to face in the lives of the people for whom he works.

THE CHAIRMAN: I would like, before closing the meeting, to make one or two remarks on the fascinating lecture to which we have just been listening. I think Mr. Collin Brooks was perfectly right when he suggested that the great movements in human life are going on under the surface all the time, and it is only when they

have developed to a very large extent that they become visible. That is specially true of the facts with which he has been dealing. Mr. Back, in his remarks, suggested that possibly a reduction of working hours would have the effect not of increasing but even of reducing costs; but I would like Mr. Collin Brooks to tell me whether I am right in my theory that although the direct costs may not be increased, the indirect costs will most certainly be increased. There is in this country a growing body of labour employed in government and municipal service and in public utility companies, and any reduction of working hours in a producing industry is bound in the long run, I think, to give rise to a claim for a reduction of working hours by these large masses of labour; and that, I think, is bound to lead to an indirect increase in the costs of production. All the time Mr. Brooks has been speaking there has been passing through my mind the effect of these movements on costs and on cost accounts, and I would like him to tell us whether he has taken into consideration this aspect of the problem with which he has so ably dealt.

Mr. BROOKS: It is obviously a question of what we mean by costs of production; everything turns on that. I would like to attempt to give two answers to your question. I am inclined myself to think that we always exaggerate labour costs and their effect on industry. For example, I am told that at Dagenham, in a very few hours, they can produce a motor-car from start to finish which would take a man 50 years to make if working by himself. (Obviously a man could not make a motor-car if he worked 50 years.) But it is quite possible that a car which now takes eight hours to make may, by some great mechanical improvement, be made in only six hours. Well, in the constant application of ingenious means of extending the workers' leisure, it seems to me, a few hours' wage one way or the other would be completely overshadowed. The second answer to the question that I would attempt to give would be this: If I understood your mind clearly, you meant that if in my factory I give my people another half-day's leisure and I find their production is greater, and therefore my costs are lower, I might also find that civil servants would want more leisure and municipal workers would want more leisure, and consequently I must do something for them, and in that way the ultimate costs are increased. That is true; but there is a tremendous interlocking of industry. Business is conducted nowadays with tremendous velocity. Where the consuming power of your workpeople and civil servants is going to stimulate the demand for your produce to a large extent, a good deal of that indirect cost would cancel out; in other words, the factor of labour costs and a short working scale can be very easily exaggerated.

Mr. WILLIAM STRACHAN (Incorporated Accountant), in proposing a vote of thanks to the lecturer, said that Mr. Brooks had given them a great deal to think about, something that they might not all agree with, a good deal that they might not be able to understand. By thinking over the lecture, however, they might be able to follow with benefit a great deal of what he had said.

The vote of thanks was carried with acclamation, and Mr. Collin Brooks briefly replied.

Mr. H. E. COLESWORTHY (Incorporated Accountant) proposed a vote of thanks to Mr. Walter Holman for taking the chair. It must be, he said, a very great pleasure to Mr. Holman to be with them that night at so successful an inaugural meeting. He wished also to include Mrs. Holman in the vote of thanks, for she had very kindly acted the part of hostess at the reception before the meeting.

This vote of thanks also was carried with acclamation, and Mr. Holman acknowledged the compliment.

Incorporated Accountant Lord Mayor of Leeds.

Mr. Tom Coombs, J.P., F.S.A.A., has been elected Lord Mayor of the City of Leeds.

Incorporated Accountants' District Society of Devon and Cornwall.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of Devon and Cornwall was held at the Duke of Cornwall Hotel, Plymouth, on November 20th.

The President (Mr. W. W. Beer, F.S.A.A.) presided over a representative gathering, which included the Lord Mayor of Plymouth (Alderman W. R. Littleton), the Mayor of Torquay (Mr. A. Denys Phillips), Mr. Richard A. Witty, F.S.A.A. (a member of the Council of the Society of Incorporated Accountants and Auditors), Colonel R. L. Norrington, C.M.G., Brigadier W. G. Holmes, Sir William Munday, Sir William Mounstephen, Mr. G. D. Roberts (Recorder of Exeter), Mr. E. S. Dobell (President, Plymouth Law Society), Mr. A. N. F. Goodman, LL.B. (Official Receiver of Plymouth), Alderman W. J. W. Modley, J.P., Mr. S. A. Dunn (Inspector of Taxes), Wing-Commander P. E. Maitland, M.V.O., Flying Officer W. H. Hibbert, R.A.F., Mr. C. F. Thatcher, LL.B., Mr. F. A. Webber, F.S.A.A. (Hon. Secretary, West of England District Society).

After the loyal toast had been honoured,

Mr. W. J. CHING, F.S.A.A. (Past President of the District Society) proposed the toast of "The Lord Mayor and City of Plymouth." He referred to the interest of Incorporated Accountants in the business life of Plymouth, a city, he said, which was in a particularly fortunate position because business had not suffered from those violent fluctuations of trade which were a far more frequent part of the business life of cities in the larger industrial areas. There were none of those waves of great prosperity so frequently succeeded by periods of great depression with the accompanying unemployment and distress. He thought that on the whole it would be generally agreed that from a business point of view conditions were somewhat like the climate—equable.

The LORD MAYOR of Plymouth (Alderman W. R. Littleton) replying, said that in Plymouth they very readily acknowledged their indebtedness to members of the Society. The large amounts which the city received each year were handled by members of their profession.

Colonel R. L. NORRINGTON, C.M.G., who proposed "The Society of Incorporated Accountants and Auditors," linked with it the name of Mr. Richard A. Witty. He recalled that the Society was formed in 1885 by a few pioneers who realised that in the near future trade and industry would have need of the services of duly qualified professional accountants. The accuracy of their forecast could be gauged from the fact that to-day the Society had between 6,500 and 7,000 members. The Society with other bodies of a similar nature had provided the country with a professional accountancy service second to none. It was the envy of many other countries and was regarded with respect throughout the world. Members of the Society were among those wise and far-seeing people who, when they were choosing a career, decided to avoid the stormy and tortuous paths of ordinary commercial life and to launch their craft on the more placid and sometimes perhaps more remunerative waters of professional life. He envied the lot of the professional accountant in many ways, but chiefly because of their headquarters in London—the Incorporated Accountants' Hall, formerly Astor House, on the Victoria Embankment. Last year, when in London, he had an opportunity of

visiting the premises and he strongly advised any who had not done so to follow his example. His business and social contacts with members of the Society had always been of a very pleasant nature. He recalled, as a close friend of his father, the time when the Secretary of their District Society sat for his examination and remarked that he shuddered to think of the sad showing he himself would have made if he had had to answer some of the questions. Incorporated Accountants had to have a vast knowledge and to have something, too, of the qualifications of the doctor and lawyer in carrying out their manifold duties in present day business life. He had looked in a well-known dictionary for the meaning of the term "accountant" and found the definition was—one who kept or was skilled in accounts. He thought the definition a little unfair because he had never met with an Incorporated Accountant who was not skilful. Trade and industry owed a very great deal to members of the accountancy profession. The greatest compliment he could pay them was the one paid to them almost every day in business life. In a dispute on a matter of figures with a competitor or colleague, how often were not those figures submitted to a duly qualified accountant? When his figures were produced all dispute was at an end, for they were accepted at once without question. That, to his mind, was the highest possible testimony to the integrity of the accountancy profession and to the impartiality and honesty which characterised all their dealings.

Mr. RICHARD A. WITTY (member of the Council of the Society of Incorporated Accountants) replying, apologised for the absence of the President who, he said, was with them in spirit if not in the flesh. The district organisations of the Society were so numerous and stretched such vast distances that it was physically impossible for the President to attend every one of them during the year. Mr. Witty said he himself welcomed the opportunity of personal contact with the most recently formed District Society. Colonel Norrington's speech had a warm glow of friendship which they, as Incorporated Accountants, very much valued and of which they were very proud. The Society's examinations were stiffer than they were, and they were getting stiffer; but he wished to contradict a rumour that they were being made deliberately stiffer in order that a smaller number of candidates should become qualified in each year. That was not the case at all. The increasing demands of the examinations were nothing more than a reflection of the increasing demands being made upon qualified accountants in every walk of life. It was his privilege to keep in touch with the examinations of all accountancy bodies in this country, and in the United States, Canada, South Africa, Australia and elsewhere, and he would admit that no professional accountancy examination in the world was more exacting than that which their own students were required to pass. It was a fact of which, perhaps, the students were more proud after they had passed the examination than they were before. He had heard somebody say that their students were required to know something of every subject except bridge. (Laughter.) The Society was doing some very valuable research work. The research committee was formed a year or two ago, and he had had the honour of being chairman since its formation. He thought they could say in all modesty that Incorporated Accountants led the world in the matter of accountancy research, and he was delighted to find the subject was receiving attention in various other quarters. He hoped and believed that it would be undertaken by the profession as a whole. It was a very difficult subject, for research in the accountancy profession was a very different thing from research in

medicine. One of the chief objects was the collection and co-ordination of information from every part of the world on any subject which might be of particular interest, either to commerce or to the accountancy profession, with the ultimate view of publication, and to ensure a really reliable and authoritative pronouncement on that particular matter. Of necessity the work was going to be slow, but he thought they would agree the time spent on it would be worth while. Invitations had appeared in the *Incorporated Accountants' Journal* asking interested members to communicate with the Secretary of the Society regarding the work of the research committee. He hoped as many members as possible would respond. There had been many terms describing accountants, some nice and some distinctly unpleasant. Every student knew that an accountant was a watch-dog, although they were rather pleased that a learned judge in a particular case drew the line at calling them blood-hounds. But he thought the designation of which they should be proudest was that given by a business friend of his when he described accountants as "friends of commerce"—a most delightful comment. That friendship, however, carried with it responsibility as well as privilege. It meant mutual understanding on both sides. Referring to the value through experience and training of the accountant in diagnosing business troubles, Mr. Witty said that one of the duties of the accountant was to help a business man to know which pedal to use or, in other words, when to use the accelerator or the brake. They were two very important gadgets in the modern world, and it was important that the right one should be used at the right moment. In such a way the accountant was able to prove his claim as the true friend of commerce. But probably one of the chief claims of the accountant to be the business man's friend was the fact that he was able to impart to the business man sufficient of that knowledge of finance which was so absolutely important to-day, whether in large or small businesses. He deprecated a tendency to-day to assume that all businesses must be operated through big units. There was, of course, a certain glamour about capital amounting to millions, but he would suggest that the medium-sized or small business still played a very important part in the commercial life of this country. He sometimes thought it would be interesting if it were possible, and it should not be impossible, to measure the economic and other advantages and disadvantages—not merely from a profit and loss viewpoint—of one hundred small businesses actuated by personal ambition and endeavour and conducted by the proprietor's own judgment and his own capital, and then to compare them with the corresponding advantages or disadvantages of the large business unit having more turnover. He thought the small business would show in a very favourable light. Not many years ago the country was more or less in a fever of rationalisation. It was generally admitted that many of those schemes were ill-conceived and some of them positively dangerous. Whilst he did not for a single moment deprecate the large undertaking, he suggested that the small business was vital to this country. It deserved more encouragement from the public, from the banks and from the municipalities. It would be an ill day for this country if it ever became a tenet of its financial creed that there was no need for the small business. In conclusion, Mr. Witty said he brought with him the greetings of the Council in London to Incorporated Accountants in Devon and Cornwall. The Council knew the difficulties of a District Society working in such a widespread area. They knew, too, that there were likely to be times when they might

for the moment wonder if the result justified the enormous amount of work required to keep the District Society going. At such moments the recollection of such a gathering as they had that evening would be an encouragement and a spur to further effort. Thus they would once again prove the loyalty of every member of the Devon and Cornwall Society to the parent body, to which they were so proud to belong. (Applause.)

Mr. H. S. BULL (Vice-President of the District Society) proposed "His Majesty's Forces," to which Brigadier W. G. Holmes replied.

"The Legal Profession" was proposed by Mr. S. H. Roberts, F.S.A.A., and responded to by Mr. G. D. Roberts and Mr. E. S. Dobell. Mr. S. A. Dunn (Inspector of Taxes) proposed "Trade and Commerce," to which Sir William Mounstephen replied.

The PRESIDENT (Mr. W. W. Beer) proposed "The Guests," and Sir William Munday and the Mayor of Torquay (Mr. A. Denys Phillips) replied. The Mayor of Torquay said they all admired the accountancy profession. The commerce of the country had reached a standard requiring great organisation, and it was the accountants who were able to put their fingers on the pulse of business, and to divine if mistakes were being made, and who could, in many cases, obviate disaster.

THE ACCOUNTING RESEARCH ASSOCIATION.

A suggestion was made some time ago that an association should be formed particularly for the study of the historical aspects of book-keeping and accounting. Those interested in the project came to the conclusion that it would be desirable to widen the scope of the intended study, and as a result the Accounting Research Association has been formed. At first it is proposed to limit the activities of the Association to the holding of meetings at which papers representing the results of research will be discussed, to publish these papers, and to encourage the conduct and publication of research work. If sufficient interest is shown by the profession it is hoped later to finance directly programmes of research and to encourage closer co-operation between the Universities and the profession. We understand that it is the intention of the promoters of the project that the Association should not be identified with any of the official bodies of accountants, but it is hoped to secure the general approval of such bodies and their members. The lines of research will no doubt closely follow the work of the Society's Research Committee, but that Committee cordially welcomes the advent of such an Association. There is ample work for all those who are prepared to take an active interest in research.

The first meeting of the Association is to be held at the London School of Economics, Houghton Street, Aldwych, on Monday, December 14th, at 6.15 p.m. Sir Josiah Stamp has consented to speak, after which there will be a discussion followed by a short meeting.

It is stated that membership of the Association will entail a small subscription to cover postage and printing, which is unlikely to exceed 5s. per annum.

The joint acting secretaries of the Association are:—Mr. R. S. Edwards, London School of Economics, Houghton Street, Aldwych, W.C.2, and Mr. Cosmo Gordon, Librarian, Institute of Chartered Accountants, Moorgate Place, E.C.2.

ACTION FOR PROFESSIONAL CHARGES

In the Mayor's and City of London Court on November 5th, before Judge F. Shewell Cooper, Mr. Simon Lewis Lewis, Chartered Accountant, 102, Bishopsgate, E.C.2, was successful in an action against Mr. Adolph Gradel, boarding house proprietor, Babbington, Athelstan Road, Cliftonville, Margate, to recover the sum of £26 5s. for professional services rendered.

The defence was that plaintiff had been paid all that was due to him, and that his charges were excessive.

Counsel intimated that the claim was in respect of work which had been commenced as far back as 1928, and which ended in December, 1934. The first year's account rendered was for writing up and auditing the books of two separate boarding houses, for which a fee of 15 guineas was charged. In subsequent years, when the accounts of only one boarding house had to be audited, a fee of 12 guineas was charged, with one exception, when there was an additional fee of two guineas in connection with the preparation of accounts of another small business. Profit and loss accounts and balance sheets were prepared by plaintiff from 1929 to 1934 inclusive, and these were submitted to defendant before being sent in to the Inspector of Taxes. No proper books of account were kept by defendant, which increased the difficulties considerably, and a great deal of correspondence was involved with the defendant and his suppliers, and also with the Inspector of Taxes. Three bulky files of correspondence were produced in Court.

Mr. Daniel Rose, an Incorporated Accountant in plaintiff's employ, said that he was in charge of the preparation of the accounts, and of the audit in this case, and he produced copies of the various accounts for the inspection of the Judge. These covered a period of five years, and witness said that during each working month involved a statement of account was sent to the defendant showing the balance due from him, and it was not until action was taken that any query was raised in regard to the fees charged. Witness informed the Judge that so far as he was aware, there was no definite fixed fee agreed between his principal and the defendant, but that the various accounts rendered showed the amount due from time to time, and the balance now claimed arose after crediting four separate payments of 10 guineas each.

The Judge said that he would help the defendant (who appeared in person) to cross-examine Mr. Rose, and his Lordship ascertained in detail the approximate number of hours' work involved in regard to each year's accounts—exclusive of correspondence—and upon Mr. Rose admitting that he had not his time-sheets for any one particular year with him, his Lordship commented that they should certainly have been available, and have been brought to Court.

Defendant suggested to Mr. Rose that the reason why he had not raised any objection to the accounts as rendered month by month was because he took it that as the first year's account for the two boarding houses was for 15 guineas, plaintiff would only charge about 7½ guineas when only one boarding house was concerned. The Judge thereupon asked defendant why he did not mention that when the accounts were rendered, as he could readily see that for each subsequent year 12 guineas was charged. His Lordship remarked that even if, as suggested, defendant had only a small business, he could not be such a very simple business man but must have some business knowledge and capacity to run a boarding house.

His Lordship said that the charges seemed to him to be quite fair and reasonable, and Mr. Rose agreed with his Lordship's view that they were in fact less than the scale rate to which the plaintiff was entitled. There was really

no defence to this case, and there must be judgment in favour of the plaintiff, with costs, but in view of defendant's plea that he had been having a very bad time, there would be an order for payment by instalments at the rate of £2 a month.

THE CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF EDINBURGH.

The Jubilee Dinner of the Chartered Accountants' Students' Society of Edinburgh was held in Edinburgh on November 6th, 1936. Mr. H. W. Haldane, C.A., President of the Society of Accountants in Edinburgh and Honorary President of the Students' Society, took the chair, and amongst the guests and members present were: Mr. Louis S. Gumley (Lord Provost of Edinburgh), Lord Aitchison (Lord Justice-Clerk), Mr. J. S. C. Reid, K.C. (Solicitor-General for Scotland), Mr. Roger N. Carter, M.Com. (President of the Institute of Chartered Accountants in England and Wales), Mr. Matthew Mitchell (President of the Institute of Accountants and Actuaries in Glasgow), Mr. Ernest M. Wedderburn (Deputy Keeper, the Society of Writers to His Majesty's Signet), Mr. Eric D. Crawford (President of the Chartered Accountants' Students' Society of Edinburgh), Sir David P. D. Wilkie, M.D., Mr. D. Lind Addison-Smith (President of the Society of Solicitors in the Supreme Court), Mr. John M. Howden, Mr. Andrew Mitchell (President of the Institute of Bankers in Scotland), Mr. R. H. Munro (Master of the Merchant Company), Mr. A. Wallace Cowan, J.P. (President of the Edinburgh Chamber of Commerce and Manufactures), Mr. A. Graham Donald, F.R.S.E. (President of the Faculty of Actuaries in Scotland), Mr. A. S. Mitchell (Chairman of the Joint Committee of Councils), Mr. Alfred A. Lawrie (Chairman of the Edinburgh Stock Exchange), Mr. William Greenhill, Mr. J. Milne Henderson, Mr. A. A. Garrett, M.A. (Secretary of the Society of Incorporated Accountants and Auditors), Mr. James Wood (Hon. Secretary, The Association of Scottish Chartered Accountants in London), Mr. C. C. Scott (Principal Inspector of Taxes), Mr. D. Norman Sloan, B.L., J.P. (Secretary of the Institute of Accountants and Actuaries in Glasgow), Professor William Annan, Professor R. Candlish Henderson, K.C., and Mr. A. M'Watt Green (Hon. Secretary).

The toast of "The City of Edinburgh" was proposed by Mr. Roger N. Carter, President of the Institute of Chartered Accountants, who referred to the amenities and beauties of Edinburgh. He mentioned that Edinburgh University was the first University in the Kingdom to establish a practical laboratory for students of commerce, and he reminded them that Edinburgh was the birthplace of the accountancy profession. The Lord Provost responded.

The toast of "The Chartered Accountants' Students' Society of Edinburgh" was proposed by Lord Aitchison, Lord Justice-Clerk, who quoted Lord Rosebery, in an early speech in Edinburgh, in which Lord Rosebery referred to the accountancy profession as the keeper of the financial conscience of the nation. The Lord Justice-Clerk added that modern methods, competition, the necessity of safeguarding commerce and industry, had brought accountancy to the position of an indispensable profession.

Mr. H. W. Haldane, in replying to the toast, referred to the fact that one of the founders of the Society was Mr. Auldjo Jamieson, a partner in his firm, and he personally was very happy to be presiding at that jubilee dinner.

Mr. John M. Howden, C.A., another of the founders of the Students' Society, proposed "The Guests," to which a response was given by Professor Sir David P. D. Wilkie.

Before the proceedings closed, the Chairman referred to the valuable work of Mr. Eric D. Crawford, C.A., President of the Students' Society, and Mr. A. M'Watt Green, C.A., who had made all the arrangements for the dinner.

RETIREMENT OF JUDGE SHEWELL COOPER.

At the conclusion of the Court proceedings on November 13th, a presentation was made to Judge F. Shewell Cooper, Assistant Judge, Mayor's and City of London Court, upon the occasion of his retirement on account of ill-health. The presentation, which took the form of a radio-gramophone, record cabinet, and records, together with a cheque, was made by Mr. Harry F. Strouts, one of the oldest and best-known practitioners frequenting the Court. A pencil sketch of the Judge has also been commissioned to be drawn by Sir William Rothenstein. Accompanying the Judge were his wife, son and daughter, and in front of them were ranged every available Court officer and member of the staff, including the Registrar and Assistant Registrar, the High Bailiff, the Chief Clerk, and the Judge's Clerk, whilst the body of the Court was packed with a representative assembly of solicitors and others who were accustomed to attend the Court. The Chairman of the Law and City Courts Committee, Mr. A. E. Watts, F.C.A., was also present.

Mr. Harry F. Strouts, in making the presentation, said that the Judge had brought the Court to such a condition that it was a Court of which everyone could be proud. He had upheld the traditions of the City of London as represented by that Court, and by his astuteness and judicial knowledge had brought it to a state of perfection. He had made things easy for the beginner, had observed punctuality and attention to duties, and had sent litigants away with a square deal.

Mr. W. L. Dell, Registrar of the Court, made reference to the particularly happy nature of the association between the Judge and officials of the Court.

Judge Shewell Cooper, in acknowledging the presentation, expressed himself as greatly embarrassed by such a manifestation of goodwill and generosity on the part of the solicitors who had resorted to that Court where he had sat for the last fourteen years. He found it a great wrench to go, and expressed his thanks for the assistance he had always received from solicitors and others in carrying out his duty of administering justice.

The vacancy caused by Judge Shewell's retirement has been filled by the appointment of Mr. A. Ralph Thomas, who was for a number of years in chambers at the Temple with the retiring Judge.

Changes and Removals.

Messrs. Cole, Dickin, Lewis & Co. have removed their Cambridge office to 7, Downing Street.

Messrs. Forster, Scollick & Co., Incorporated Accountants, announce a change of address to Star Buildings, 26, Northumberland Street, Newcastle-upon-Tyne.

Mr. F. L. Jarratt, Incorporated Accountant, has commenced to practise at Waverley House, Newport, Brough, E. Yorks; also at Ferres Chambers, 22, Whitefriar Gate, Hull.

Messrs. W. E. Nelson & Co., Incorporated Accountants, announce that their Liverpool office has been removed from 22, Lord Street to Derby Square, Castle Street. The offices of the Incorporated Accountants' District Society of Liverpool have also been removed to the same address.

Reviews.

Law and Accounts of Executors, Administrators and Trustees. 5th Edition. By B. V. Vickery, F.C.A., F.S.A.A. The Donnington Press, 40, St. Peter's Street, St. Albans. (366 pp. Price 12s. 6d. net.)

All recent legal decisions of importance have been included in the preparation of this edition. In other respects the book is produced on the same lines as before. So far as the legal portion of the work is concerned, the author has concentrated on the main principles, which are clearly set forth under appropriate heads. At the end of each chapter a number of graded exercises appear selected from examination papers of the Society of Incorporated Accountants and Auditors, the Institute of Chartered Accountants and other bodies. The portions of the book relating to accounts contain numerous worked-out examples and *pro forma* accounts which greatly enhance its value. The appendix includes an audit programme for trust accounts and answers to a number of the questions set at the end of the respective chapters.

Procedure at Company and Local Government Meetings. 15th Edition. By Albert Crew, Barrister-at-Law, and Evelyn Miles, B.A., Barrister-at-Law. London: Jordan & Sons, Ltd., Chancery Lane, W.C.2. (436 pp. Price 7s. 6d. net.)

Every aspect of company meetings is fully explained in this publication, commencing with the notice to be sent out, and following with the chairman's conduct of the meeting, voting and the taking of polls. Meetings of directors and shareholders are separately treated and the statutory provisions relating to meetings in a winding-up are reproduced with Explanatory Notes. A separate section of the book is devoted to the conduct of and proceedings at meetings of local authorities. Forms of notices of meetings and definitions of terms used in relation to company matters are contained in the Appendix.

Audits. 9th Edition. By A. E. Cutforth, C.B.E., F.C.A. London: Gee & Co. (Publishers), Ltd., 6, Kirby Street, E.C.1. (362 pp. Price 10s. 6d. net.)

After discussing the general procedure in regard to an audit, the author sets out a specimen programme for an audit of the cash transactions of a trading concern and explains the audit practice in relation to specific items in the profit and loss account and balance sheet. He then deals with internal check and the special features in the accounts of various classes of undertakings, giving specimen accounts in many cases. The book contains useful guidance on many matters of doubt and difficulty.

Private Companies, Their Management and Statutory Obligations. 4th Edition. By Stanley Borrie, Solicitor. London: Jordan & Sons, Ltd., Chancery Lane, W.C.2. (206 pp. Price 5s. net.)

Amongst the matters which are dealt with in this book are alterations of capital, the duties of the secretary, the borrowing powers of the company, proceedings at general meetings, the company's accounts and the duties of auditors. A list is given of the documents requiring registration by a private company, with the times prescribed for the lodgment with the Registrar of Companies and a reference to the sections imposing the obligation. The book is well indexed and constitutes a useful handbook on the subject.

Rates and Rating. 9th Edition. By Albert Crew, Barrister-at-Law, and Francis Jones, Barrister-at-Law. London: Sir Isaac Pitman & Sons, Ltd., Parker Street, Kingsway, W.C.2. (538 pp. Price 12s. 6d. net.)

In this edition a chapter on derating has been added and in the rest of the book all the recent cases and statutory enactments bearing upon the subject have been included. Every aspect of rating is brought under review,

special attention being given to current rating practice, with a view to assisting the lawyer as well as the ratepayer. The relevant provisions of the rating statutes are reproduced and a separate chapter is devoted to the basis of valuation and machinery of administration applicable specially to London.

Accounting Fundamentals. By George A. MacFarland, Professor of Accounting, University of Pennsylvania, and Robert D. Ayars, Professor of Accounting, University of Pittsburgh. London: McGraw-Hill Publishing Co., Ltd., Aldwych House, W.C.2. (668 pp. Price 24s. net.)

The principles of accounting as practised in the United States of America are set forth in some detail in this publication. The book is designed mainly for students, and anyone desiring to become acquainted with American accounting practice and methods will find much useful information by a study of its contents.

District Societies of Incorporated Accountants.

BELFAST.

Syllabus of Meetings, 1936—37.

1936.

- Oct. 30th. Students' Meeting. "A Student's Programme" by Mr. R. Wilson Bartlett, F.S.A.A.
- Nov. 23rd. Luncheon in the Carlton at 1 p.m. Address by Mr. W. Bertram Nelson, F.S.A.A.
- Nov. 23rd. Students' Meeting. "Incomplete Records," by Mr. W. Bertram Nelson, F.S.A.A.
- Dec. 7th. Luncheon in the Carlton at 1 p.m.

1937.

- Jan. 4th. Students' Meeting. "Examination Papers," by Mr. Robert Bell.
- Jan. 4th. Luncheon in the Carlton at 1 p.m., and Address on "Wills," by Mr. D. J. Watters.
- Jan. 15th. Students' Dance.
- Feb. 4th. Luncheon in the Carlton at 1 p.m., and Address by Mr. C. M. Dolby, F.S.A.A.
- Feb. 4th. Students' Meeting. "Investigations," by Mr. C. M. Dolby, F.S.A.A.
- Mar. 4th. Luncheon in the Carlton at 1 p.m., and Address by Sir E. Herdman (Chairman, Belfast Harbour Commissioners).
- Mar. 10th. Students' Meeting. "Income Tax," by Mr. H. McMillan, A.S.A.A.
- April 5th. Students' Annual Meeting.
- April 26th. Annual Meeting.

Meetings are held in the Society's Rooms, Coates' Buildings, Castle Street, Belfast, at 7.30 p.m., unless otherwise indicated.

CUMBERLAND AND WESTMORLAND.

STUDENTS' SECTION.

Syllabus of Lectures, 1936—37.

1936.

- Dec. 4th. "Control of Stocks," by Mr. Percy H. Walker, F.S.A.A.

1937.

- Feb. 2nd. "Some Aspects of the Gold Standard and the London Money Market," by Mr. Alfred E. Pugh, F.S.A.A.
- Feb. 12th. "Practical Aspects of the Duties of Trustees, Liquidators and Receivers," by Mr. A. V. Hussey, A.S.A.A.
- Mar. 12th. "Internal Organisation of an Accountant's Office," by Mr. Charles M. Dolby, F.S.A.A.

NEWCASTLE-UPON-TYNE.

Syllabus of Lectures, 1936—37.

NEWCASTLE-UPON-TYNE.

Lectures and meetings to be held at Society's Lecture Room, 52, Grainger Street (unless otherwise stated), at 6.30 p.m.

1936.

- Oct. 12th. "Auditing Case Law," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law. *Chairman*: The President.
- Oct. 23rd. "Matters Connected with Public Issues of Capital," by Mr. W. J. Back, A.S.A.A. *Chairman*: Mr. F. W. Smith, A.S.A.A.
- Nov. 2nd. Qualified Members' Meeting. *Chairman*: The President.
- Nov. 9th. Students' Open Night. *Chairman*: Mr. J. E. Spoor, A.S.A.A.
- Nov. 24th. "Partnership Law and Accounts," by Mr. J. Wilkinson, A.S.A.A. *Chairman*: Mr. A. J. Ingram, F.S.A.A.
- Dec. 4th. Annual Dinner at Royal Station Hotel.
- Dec. 14th. "The American Experiment," by Mr. W. H. Coates, Ph.D., LL.B., B.Sc. In Church Institute at 7 p.m. *Chairman*: Mr. W. H. Stalker, A.S.A.A.
- Dec. 15th. "The Art of Public Speaking," by Mr. A. Duxbury. *Chairman*: Mr. W. H. Stalker, A.S.A.A.

1937.

- Jan. 14th. "Municipal Accounts," by Mr. E. Van Ham, A.S.A.A. *Chairman*: Mr. A. M. White, F.S.A.A.
- Jan. 29th. Students' Informal Dinner.
- Feb. 3rd. "Review of Present-Day Economic Problems including a Review of Present Conditions in this country," by Mr. A. E. Pugh, F.S.A.A. *Chairman*: Mr. H. S. Parkin, F.S.A.A.
- Feb. 9th. Qualified Members' Meeting. *Chairman*: Mr. T. W. Scollick, F.S.A.A.
- Feb. 22nd. "Executorship Accounts," by Mr. G. Lambert A.S.A.A. *Chairman*: Mr. J. Telfer, A.S.A.A.
- Mar. 11th. "Executorship Accounts," by Mr. G. Lambert, A.S.A.A. *Chairman*: Mr. G. Blakelock, A.S.A.A.
- Mar. 22nd. "Executorship Accounts," by Mr. G. Lambert, A.S.A.A. *Chairman*: Mr. H. Scott, A.S.A.A.
- Mar. 29th. Qualified Members' Meeting. *Chairman*: The President.

*This lecture has been arranged jointly with Northern Society of Chartered Accountants, North-East Coast Society of Chartered Secretaries, Newcastle Institute of Bankers and Newcastle Insurance Institute.

MIDDLESBROUGH AREA.

Lectures to be held in Hinton's Café, Corporation Road, Middlesbrough, at 7 p.m.

1936.

- Oct. 13th. "Auditing Case Law," by Mr. E. Westby-Nunn, B.A., LL.B., Barrister-at-Law. *Chairman*: The President.
- Oct. 22nd. "Matters Connected with Public Issues of Capital," by Mr. W. J. Back, A.S.A.A. *Chairman*: Mr. T. R. G. Rowland, F.S.A.A.
- Nov. 9th. "A Few Points on Executorship Law," by Mr. R. M. Beckwith, Solicitor. *Chairman*: Mr. T. E. Dent, F.S.A.A.
- Nov. 23rd. "A Municipal Internal Audit," by Mr. R. Sutcliffe, F.S.A.A. (Borough Treasurer, Middlesbrough). *Chairman*: Mr. C. L. Hamer, F.S.A.A., A.C.A.

Dec. 14th. "The Art of Public Speaking," by Mr. A. Duxbury. *Chairman*: Mr. C. Percy Barrow-cliff, F.S.A.A.

1937.

Jan. 18th. "Process Costs," by Mr. W. H. Stalker, A.S.A.A. *Chairman*: Mr. J. F. Chapman, F.S.A.A.

Feb. 5th. "Review of Present-day Economic Problems, including Conditions in this Country," by Mr. A. E. Pugh, F.S.A.A. *Chairman*: Mr. T. Jewitt, A.S.A.A.

Feb. 16th. "Main Points Arising Under Schedule D," by Mr. W. P. Sawyer, Inspector of Taxes. *Chairman*: Mr. A. J. Ingram, F.S.A.A.

Mar. 2nd. General Meeting of Members.

SUNDERLAND AREA.

Lectures to be held at Palatine Hotel, Borough Road, Sunderland, at 7 p.m. (unless otherwise stated).

1936.

Oct. 21st. "Preparation of Accounts from Incomplete Records," by Mr. W. J. Back, A.S.A.A. *Chairman*: Mr. A. J. Ingram, F.S.A.A.

Nov. 19th. Students' Meeting to discuss "Procedure in Deeds of Arrangement and Voluntary Liquidation" (at Mr. Ingram's Office, Central Buildings, West Sunnyside). *Chairman*: Mr. A. J. Ingram, F.S.A.A.

1937.

Feb. 4th. "Review of Present-day Economic Problems, including a Review of Present Conditions in this Country," by Mr. A. E. Pugh, F.S.A.A. *Chairman*: Mr. H. S. Parkin, F.S.A.A.

SHEFFIELD.

A joint meeting of the Incorporated Accountants' District Society of Sheffield, the Sheffield Society of Chartered Accountants, and the Sheffield Branches of the Chartered Institute of Secretaries and the Institute of Bankers was held in the Sheffield City Library on November 11. Lord Riverdale occupied the chair, and there was a large attendance. Sir Josiah Stamp delivered a lecture on "Controlling Factors in the Economic Outlook," of which a report appears in another part of this issue.

The lecture was followed by a complimentary dinner to Sir Josiah Stamp, held at the Grand Hotel, when Lord Riverdale again presided. The dinner was limited to members of the Committees of the four Societies, and the guests included Sir Josiah Stamp, Mr. Walter Holman (Vice-President of the Society of Incorporated Accountants), Mr. Roger N. Carter (President of the Institute of Chartered Accountants), Sir Enoch Hill, J.P. (President of the Chartered Institute of Secretaries), Sir Ronald Matthews, J.P., Dr. A. W. Pickard-Cambridge (Vice-Chancellor of the University), Mr. A. K. Wilson (President of the Chamber of Commerce), Mr. J. J. Baldwin-Young (President of the Sheffield Centre, Law Society), Mr. C. H. Isdell-Carpenter (Secretary of the Chartered Institute of Secretaries), Mr. Maurice Megrah (Secretary of the Institute of Bankers), Mr. A. R. Knowles (Secretary of the Chamber of Commerce), and Mr. Cuthbert Jones.

The Loyal Toast having been duly honoured,

Mr. Roger N. Carter (President, Institute of Chartered Accountants), in proposing the health of Sir Josiah Stamp, thanked him for the lecture. He referred to Sir Josiah's many activities, and particularly to his address at the British Association Conference.

Sir Josiah Stamp, in reply, made reference to the service rendered by Mr. Roger N. Carter as an educationalist of

the accountancy profession. Mr. Carter's book on income tax practice, he said, had been referred to by him on many occasions in the past.

Mr. Walter Holman (Vice-President, Society of Incorporated Accountants) proposed the health of Lord Riverdale, the Chairman of the business meeting and the dinner. He said that this was one of the occasions, happily frequent in Sheffield, when all four societies joined for a common purpose. He referred to the activities of Lord Riverdale, and thanked him for his services.

Lord Riverdale, in reply, thanked Mr. Holman for his kind references to himself. He pointed out the dangerous situation caused through rising costs. There would be a temptation to spend at present on capital extensions, which would possibly be useless in about three years' time. He strongly advised all present to keep level heads during the extraordinary period through which we were now passing.

Mr. Maurice Megrah proposed the toast of the Local Societies, and referred to the success of the joint lectures. Mr. W. G. Lee, President of the Sheffield Branch of the Chartered Institute of Secretaries, replied.

The toast of "Our Guests" was proposed by Mr. Slater Willis, in a humorous speech. Sir Enoch Hill, in replying, said that the members should be grateful for the organisation which had resulted in such a lecture and such a feast of reason.

Scottish Notes.

[FROM OUR CORRESPONDENT.]

November Examinations.

The examinations for Scottish candidates were held at the Commercial College, Glasgow, under the supervision of Mr. James Paterson, member of Council, assisted by Mr. J. Hawthorne Paterson, F.S.A.A. During the Sessions the Examination Hall was visited by Mr. W. Davidson Hall and Mr. William Houston, members of the Council of the Scottish branch.

The late Mr. Adam Hunter, Dundee.

The death occurred on October 20th of Mr. Adam Hunter, for many years an Incorporated Accountant practising in Dundee, and one of the oldest members of the Scottish Institute of Accountants, the Scottish branch of the Society. Mr. Hunter was for 60 years associated with the Investment Trust Companies which have their headquarters in Dundee. He was a director of the First, Second and Third Scottish American Trust Companies, and the Northern American Trust Co., and had many other interests in Dundee. Mr. Hunter, who was 79, through failing health resigned his directorships and professional connections in the beginning of this year.

Scottish Municipal Elections.

In the Scottish municipal elections held in November two Incorporated Accountants were interested as candidates. At Falkirk, Mr. Festus Moffat, F.S.A.A., one of the magistrates of the Burgh, lost his seat to a Labour candidate by the narrow margin of five votes. At Kilmarnock Mr. James C. McMurray, F.S.A.A., won a seat by a substantial majority over his Labour opponent.

I.M.T.A. Secretaryship.

Many members of the Scottish branch will learn with pleasure of the appointment of Mr. J. A. MacKerrell, Incorporated Accountant, to the important position of secretary of the Institute of Municipal Treasurers and Accountants. Mr. MacKerrell, who is a native of Greenock, was for some time an assistant in the Town Chamberlain's office there. Previous to being appointed assistant secretary of the Institute in the beginning of the year, he was in the office of the Borough Treasurer of Ilford,

and afterwards in the City Chamberlain's Department, Dundee. Mr. MacKerrell was awarded Honours in the Intermediate Examination in 1934, and also received the W. D. Hall Prize from the Scottish Council.

During his four years' stay in Dundee Mr. McKerrell took a very active interest in amateur dramatic work, both on the stage and as a producer, and he was largely responsible for the formation of a very successful dramatic club amongst the members of the Corporation staffs.

Glasgow Students' Society.

A lecture was given on 18th ult. by Mr. Donald A. S. McLeish, M.A., LL.B., solicitor, Glasgow, on "Some Aspects of the Law of Contract." Mr. W. Davidson Hall, F.S.A.A., presided over a large attendance of registered students. He was supported by Mr. James Paterson, Secretary of the Scottish branch, Mr. J. Hawthorne Paterson, F.S.A.A., and Mr. James A. Mowat, Secretary of the Students' Society.

Mr. McLeish discussed at considerable length the general principles of the law of Contract, with particular reference to the nature of contractual obligations and the methods by which they might be incurred. He explained that, in some cases, an agreement which was incomplete in form might nevertheless be binding upon the parties by the operation of *rei interventus*. Mr. McLeish also discussed the question of the considerations which affected the capacity of parties to enter into contracts, and explained contracts which could be constituted only in writing and those which could be entered into in a less formal manner. He also briefly dealt with the methods of proving the terms of a contract, and particularly cases in which parole evidence was incompetent.

The lecture was designed to meet some of the problems set at the Society's examinations under the head of Mercantile Law. A further lecture will be given on other branches of the Law of Contract on December 16.

Notes on Legal Cases.

EXECUTORSHIP LAW AND TRUSTS.

In Re Liddell-Grainger Will Trusts.

Declaration of Domicil.

A declaration in a will that the testator did not intend to relinquish his English domicil and that his will should be construed as if he were and remained until his death domiciled in England did not operate to prevent a finding that there had been a change of domicil where the physical fact of residence in another country and the mental fact of intention permanently to reside there were proved. (Ch. : (1936) 53 T.L.R., 12.)

INSOLVENCY.

In re Pollock.

Moneys Paid by Debtor to Solicitor for Costs.

The practice whereby a solicitor may retain moneys paid to him by a person against whom a receiving order has been made to meet his costs in opposing bankruptcy proceedings on behalf of the debtor is not to be extended to moneys paid for the purposes of an appeal against the receiving order. (Ch. : (1936) 53 T.L.R., 47.)

In Re a Debtor (No. 5 of 1936.)

Deed of Assignment for Benefit of Creditors.

A petitioning creditor, who has in any way assented to, recognised or approved of a deed of assignment by a debtor, cannot afterwards allege that the execution of the deed constitutes an act of bankruptcy.

When, therefore, a petitioning creditor has—while not directly assenting to the execution by a debtor of a deed of assignment in favour of creditors—at a meeting of creditors, and subsequently in reply to a letter in which he was asked to confirm what had been said at the meeting, intimated that he would not do anything to upset the deed, but would wait and see what happened, he must be taken to have expressed his approval and recognition of the deed, and the Court therefore will refuse to allow him to take advantage of the execution of the deed as an act of bankruptcy on which a petition can be founded. In such a case there is "sufficient cause" within the meaning of sect. 5 (3) of the Bankruptcy Act, 1914, for not making an order. (Ch. : (1936) 1 Ch., 728.)

In Re S.P. (Deceased); Ex Parte Official Receiver.

Wife's Advances for Purposes of Business.

The debtor died in October, 1934, intestate and insolvent. His widow having in her husband's lifetime advanced him certain moneys for the purpose of his business, and having after his death received certain sums which formed part of his estate and which equalled the amount so advanced by her, on February 1st, 1935, paid them as his administratrix into her own private account. On February 8th an order was made for the administration of her deceased husband's estate in bankruptcy, the sums then still remaining in her hands. These sums paid into her private account were claimed by the Official Receiver as trustee of the husband's estate, he alleging that by virtue of sect. 36 (2) of the Bankruptcy Act, 1914, and the Administration of Estates Act, 1925, the widow had no right of retainer as against other creditors.

It was held that on February 8th, the widow had in her hands the sums in question forming part of her husband's estate, and that she had not made these sums her own by paying them in to her private account on February 1, for she had no right of retainer as against other debts due from the estate, which were all of higher degree than the debt owing to her, and the sums must accordingly be handed over to the Official Receiver. (Ch. : (1936) 1 Ch., 735.)

Eaton-Turner v. McKenna,

Earnings in Employment Abroad.

By the Income Tax Act, 1918, Schedule D, para. 1 (a), tax under the Schedule is to be charged in respect of the annual profits or gains arising or accruing to any person residing in the United Kingdom from any trade, profession, employment, or vocation, whether carried on in the United Kingdom or elsewhere. By para. 2, the tax is to be charged in respect of any profession, etc., not contained in any other schedule.

An English company, which had its registered office in London, employed the appellant as manager of a mining property in West Africa. The appellant was resident in the United Kingdom, having a house in England in which his family lived. His duties were all performed in West Africa, but the greater part of his remuneration was paid by the company into his bank in London.

It was held by the House of Lords, affirming the decision of the Court of Appeal (see *Incorporated Accountants' Journal*, October, 1935, p. 32), that the appellant in respect of the profits of his employment came within the words of Schedule D, 1 (a) and 2. As by virtue of sect. 18 of the Finance Act, 1922, the profits or gains from an employment chargeable to income tax under Schedule D became chargeable to tax under Schedule E of the Act of 1918, the appellant fell to be assessed under Schedule E. (H.L. : (1936) 53 T.L.R., 49.)